

JOINT PUBLIC MEETING
OF THE
CALIFORNIA ENERGY COMMISSION
CALIFORNIA PUBLIC UTILITIES COMMISSION

In the Matter of:)
)
ENERGY ACTION PLAN)
)
_____)

CALIFORNIA ENERGY COMMISSION
HEARING ROOM A
1516 NINTH STREET
SACRAMENTO, CALIFORNIA

MONDAY, SEPTEMBER 12, 2005

10:08 A.M.

Reported by:
Peter Petty
Contract No. 150-04-002

PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

CALIFORNIA ENERGY COMMISSION

Joseph Desmond, Chairperson

Arthur H. Rosenfeld, Commissioner

James Boyd, Commissioner

John L. Geesman, Commissioner

Jackalyne Pfannenstiel, Commissioner

STAFF

B.B. Blevins, Executive Director

David Ashuckian

Thom Kelly

CALIFORNIA PUBLIC UTILITIES COMMISSION

Michael Peevey, President

Geoffrey Brown, Commissioner

Susan P. Kennedy, Commissioner

Dian Grueneich, Commissioner

STAFF

Steve Larson, Executive Director

Sean Gallagher, Energy Division

ALSO PRESENT

Michael Chrisman, Secretary
California Resources Agency

Yakout Mansour, President and Chief Executive
Officer
California Independent System Operator

Armando Perez, Vice President
California Independent System Operator

ALSO PRESENT

Robin Smutny-Jones, Director of State Affairs
California Independent System Operator

Elizabeth Lowe, Board Member
California Independent System Operator

Sunne McPeak, Secretary
Business, Transportation and Housing Agency

Joseph Sparano, President
Western States Petroleum Association

Robert Burt
Bobburt Energy Consulting Service
representing Insulation Contracting Association

Les Guliassi, Director State Agency Relations
Pacific Gas and Electric Company

Gary L. Schoonyan, Director
Southern California Edison Company

Clyde S. Murley
Consulting on Energy and Environment
San Luis Obispo Mothers for Peace

Jan E. McFarland, Vice President
Americans for Solar Power
PV Manufacturers Alliance

Tom Pierson, CEO
Turbine Air Systems

Andrew Brown, Attorney
Ellison, Schneider and Harris
representing Turbine Air Systems

Julie Blunden, Vice President of External Affairs
SunPower Corporation

Randy Howard
Los Angeles Department of Water and Power
(via teleconference)

Robert Kinosian
Office of Ratepayer Advocates
California Public Utilities Commission

I N D E X

	Page
Proceedings	1
Introductions	1
Opening Remarks	1
President Peevey	1
Commissioner Brown	2
Commissioner Grueneich	3
Commissioner Boyd	4
Commissioner Geesman	5
Commissioner Kennedy	5
Secretary Chrisman	6
Secretary McPeak	6
Reviews	9
Electric Supply/Demand Outlook for Summer 2006 and Beyond	9
Questions/Comments	16
Recent Southern California Transmission Emergency	29
Questions/Comments	34
Discussions	59
Governor's Energy Policies and Response to the Integrated Energy Policy Report	59
2005 Energy Action Plan	85
Status of CEC's Integrated Energy Policy Report and CPUC's Procurement Proceeding	95

I N D E X

	Page
Discussions - continued	
Other Current Energy Events and Topics of Joint Interest	108
Public Comments	119
Joseph Sparano, President Western States Petroleum Association	119
Questions/Comments	129
Robert Burt Bobburt Energy Consulting Service Insulation Contractors Association	151
Les Guliassi, Director Pacific Gas and Electric Company	154
Questions/Comments	163
Gary Schoonyan, Director Southern California Edison Company	169
Questions/Comments	177
Clyde Murley San Luis Obispo Mothers for Peace	182
Jan McFarland, Vice President Americans for Solar Power PV Manufacturers Alliance	189
Tom Pierson, CEO Turbine Air Systems	193
Andrew Brown, Attorney Ellison, Schneider and Harris representing Turbine Air Systems	198
Questions/Comments	201
Julie Blunden, Vice President SunPower Corporation	205

I N D E X

	Page
Public Comments - continued	
Randy Howard Los Angeles Department of Water and Power	213
Robert Kinosian CPUC - Office of Ratepayer Advocates	217
Questions/Comments	219
Closing Remarks	221
Adjournment	221
Reporter's Certificate	222

P R O C E E D I N G S

10:06 a.m.

CHAIRPERSON DESMOND: Good morning. I'd like to welcome everyone here today to the quarterly meeting of the joint energy agencies and other agencies to talk about coordinated energy planning.

Before I give my introduction I'd like to acknowledge the presence and the attendance starting on my left, Commissioner Body, Commissioner Geesman, I believe Secretary Chrisman and Secretary Lloyd are on their way -- Secretary Chrisman, Secretary McPeak; and to my right, since Michael made me sit to his right in the last meeting, CPUC President Peevey, Commissioner Geoff Brown, Commissioner Pfannenstiel, Commissioner Grueneich and Commissioner Rosenfeld.

So, as I said, before I open my remarks, I'd sort of like to provide the opportunity, President Peevey, if you'd like to comment on behalf of the CPUC, and any other Commissioners, as well.

PRESIDENT PEEVEY: I just wanted to point out to everyone in the room that here comes Commissioner Kennedy. No, that's not what I was

1 going to point out.

2 That this is the first time I've been to
3 the Energy Commission where we got a little
4 sticker that says "visitor."

5 (Laughter.)

6 PRESIDENT PEEVEY: So I guess this is
7 Homeland Security at its finest. But, my real
8 question to Mr. Desmond and to the members of the
9 CEC that are in this policing detail, is why Robin
10 Smutny-Jones is pink, while everyone else is
11 green.

12 (Laughter.)

13 PRESIDENT PEEVEY: Is it offsetting
14 because the jacket you have on is --

15 CHAIRPERSON DESMOND: Absolutely
16 correct.

17 PRESIDENT PEEVEY: On that frivolous
18 note, I'll turn it over to my colleague in
19 seniority, Geoff Brown, for some comments. I know
20 he's got extensive comments.

21 COMMISSIONER BROWN: Well, good morning,
22 everybody. I'm glad to be here. I think we're
23 ready to tackle some issues with respect to the
24 Energy Action Plan Number Two that both
25 Commissions and others have worked on.

1 You know, I noticed the other day, I'm
2 going to take a column by Dan Walters in the
3 paper, to the effect that there was a lack of
4 energy coordination in the State of California,
5 and we could expect nothing but blackouts as a
6 consequence.

7 And as the dark prophet of pessimism
8 that he is, I wrote him a note. And I said, you
9 know, you ought to come up here, Dan. You might,
10 you know, to the -- we've got one on September
11 12th. We're working pretty well together, and
12 we're working toward coordination of our policies.
13 I never got a response from him.

14 But I think that this represents a
15 promising aspect of the State of California, that
16 although we are faced with daunting issues of
17 scarcity, high prices, natural gas and other
18 entity components, we continue to show a desire to
19 coordinate our efforts. And this is, I think we
20 march forward toward that possibility.

21 COMMISSIONER GRUENEICH: Thank you. I'm
22 very pleased to be here this morning, although I
23 will say it wasn't the best start of mornings
24 because the power was out in my house this
25 morning.

1 And what's very interesting is the power
2 was out at the PUC last Thursday. So I'm hoping
3 this is not part of the welcome to me as one of
4 the new Commissioners.

5 But anyhow, I'm very pleased to be here.
6 That I've had the opportunity to be working with
7 my colleague on the left, Commissioner
8 Pfannenstiel, on the Energy Action Plan 2, as well
9 as the other important matters that all of the
10 agencies in California that deal with energy are
11 dealing with.

12 And I just want to say that I certainly
13 am doing my best as a new Commissioner to uphold
14 what has been a very good tradition over the last
15 couple of years of the agencies working together.
16 And I hope that will be showing that collaborative
17 attitude both here and in the days ahead.

18 Thank you.

19 COMMISSIONER BOYD: I just want to
20 welcome our distinguished guests and our partners,
21 as Commissioner Brown pointed out. We have become
22 far more partners than in the past. I think it's
23 a very positive thing. And the EAP-1 was kind of
24 like the Magna Carta between these two agencies.
25 And I think it's a very positive step and I'd like

1 to welcome Mr. Larson back into the building. How
2 come you don't have a pink tag?

3 (Laughter.)

4 COMMISSIONER GEESMAN: I certainly
5 appreciate the camaraderie and good cheer that
6 characterizes these meetings. But I don't think
7 that we've made adequate progress on addressing
8 the infrastructure needs that confront us.

9 In June, when we last met, we were
10 joined by members of the FERC. At his farewell
11 interview, Pat Wood gave us, and I believe he
12 included himself and the FERC in this grade, a D+
13 in responding to the infrastructure needs after
14 the 2000/2001 crisis. His replacement,
15 Commissioner Kelliher, characterizes southern
16 California as the most serious electricity
17 situation in the United States.

18 I think with the return of rolling
19 blackouts last month to southern California, it's
20 hard to dispute that. And I'm hopeful that we can
21 muster the spirit and cooperations to more
22 aggressively address our infrastructure needs.

23 COMMISSIONER KENNEDY: I would just like
24 to ask that if there's an opportunity today to
25 talk about gas prices this winter, if there's

1 anything we can be doing about it, that we find a
2 place on the agenda to address that.

3 SECRETARY CHRISMAN: Thank you. Thank
4 you, Joe. Nothing much more to add other than I
5 think the camaraderie that a number of folks have
6 mentioned here I think is important in our ongoing
7 conversations and dialogue between the Energy
8 Commission, the PUC and all of us involved in
9 energy policy here in California. It's working
10 pretty well.

11 We've still got some challenges ahead of
12 us. And I think that's what these, frankly, these
13 meetings are about, to try to get through some of
14 those challenges and make some real progress. I'm
15 convinced we have, and we'll continue to do so.

16 Thank you for being here.

17 CHAIRPERSON DESMOND: Thank you,
18 Secretary.

19 SECRETARY McPEAK: Mr. Chairman, I would
20 only add to everybody else's comments about the
21 cooperation. The fact that Secretary Chrisman,
22 Secretary Lloyd, Secretary Aguirre and I, on a
23 monthly basis, have the opportunity to meet with
24 you and the professional staffs of the agencies.
25 And, yes, they do recycle themselves. But it's

1 great to see the family of friends and
2 professionals still meeting together.

3 And I would just share with you how
4 impressive it is that efficient and renewable is
5 what Susan Kennedy just said, they are, the staff,
6 efficient and renewable -- that the --

7 (Laughter.)

8 SECRETARY McPEAK: The staffs of your
9 agencies are also working in a very partnered and
10 collaborative manner, and we're getting far more
11 progress because of it. And so that's been very
12 very encouraging to see that kind of level of
13 functional integration among the agencies.

14 CHAIRPERSON DESMOND: Thank you. Let me
15 just add that it's always a pleasure for the
16 agencies to collectively get together on a
17 quarterly basis. It helps us continue to maintain
18 our focus.

19 But as the Governor said, we've turned
20 the corner, but we're not yet out of the woods.
21 And so there's still considerable work to be done.
22 And in that sense the issues in and around
23 resource adequacy, competitive procurement
24 transmission, natural gas require ongoing close
25 cooperation between all of the agencies, not just

1 the PUC and the California Energy Commission. All
2 the agencies, including the Governor's Office, for
3 us to achieve the goals that have been set forth
4 and are expected of us by the Governor, the
5 Legislature and the citizens of the State of
6 California.

7 So, before moving into the first agenda
8 item, I have to note a couple things. In terms of
9 item number 1, which is the southern California
10 transmission emergency. There has been a vehicle
11 delay in the PUC Staff, so we will hold that, as
12 soon as they arrive. And we're going to move
13 first item, which is to review the electric supply
14 demand outlook for summer 2006 and beyond.

15 And while that's getting set up I should
16 note Commissioner Grueneich, regarding the power
17 outage at your house and at the PUC, PG&E wrote me
18 an email saying you just need to pay the bill.

19 So, --

20 (Laughter.)

21 UNIDENTIFIED SPEAKER: In both cases.

22 CHAIRPERSON DESMOND: In both cases.

23 (Laughter.)

24 CHAIRPERSON DESMOND: I'm kidding, of
25 course.

1 They said please vote -- no.

2 First up is Dave Ashuckian.

3 MR. ASHUCKIAN: Good morning,
4 Commissioners. Dave Ashuckian with the California
5 Energy Commission, here to talk about our first
6 preliminary look at 2006 and beyond. And I want
7 to start off by just giving a brief review of what
8 happened in 2005.

9 As you recall, you know, we were
10 projecting adequate resources under normal
11 conditions. But tight under hot conditions. As
12 you all know, we have pretty much experienced, I
13 believe, pretty close to what we had projected,
14 although there was some equipment abnormalities
15 that did cause some outages. But overall, our
16 forecasts were pretty consistent with what
17 actually happened this summer.

18 With that, I'll move on to our first
19 look at 2006. We'll start off looking at the
20 statewide outlook. We're using this new format
21 that we presented to you back in June that
22 includes planning conventions, as well as expected
23 conditions and adverse conditions.

24 Now, for our 2006 outlook we started off
25 with using the basecase numbers from 2005. I just

1 also want to mention the fact that we have
2 collaborated with the ISO Staff on these numbers.
3 And, again, they are preliminary, but we're
4 continuing to refine them as new information comes
5 in.

6 The existing generation numbers have
7 been modified slightly as the result of primarily
8 hydro conditions. We had a pretty ample supply of
9 hydro resources this summer, and so we had
10 actually adjusted our hydro numbers up. So these
11 numbers for 2006 are going back to our standard
12 dry hydro condition for capacity.

13 Our known retirements include Hunter's
14 Point and Mojave as the primary retirements for
15 2006.

16 We have a number of new plants, both in
17 northern and southern California, that are coming
18 online. And that's reflected in line 3.

19 This table includes our new I'll call
20 preliminary demand forecast that has been in
21 development as part of the 2005 IEPR process.
22 There was a workshop held back in late June and
23 staff are continuing to refine that work and
24 actually plan to publish a report in the next few
25 weeks with the final review of that during the

1 IEPR hearings in early October.

2 But these numbers in these tables
3 include the latest estimate of what I'll call the
4 high range of demand expected in the various
5 regions.

6 Moving on down to the expected operating
7 conditions we have a couple changes here. Our
8 outage numbers have been revised slightly as a
9 result of, again, additional information we have
10 received over the last year from the various
11 outage events. And so as a result of that we
12 essentially have increased the outage level under
13 expected conditions by about 100 megawatts.

14 On the same token the transmission
15 limitation number has changed, as well. And what
16 we've done here is, our first step in looking at
17 the probability analysis that we were asked to
18 include in our analyses.

19 What line 11 shows is our average
20 expected transmission limitation, primarily in
21 southern California, under normal conditions.
22 Now, I want to mention the fact that even under
23 peak days this year we have not seen higher than
24 400 megawatt transmission limitations. So we
25 think this is still a pretty conservative estimate

1 for expected conditions.

2 Now, we've moved the -- last year there
3 was 800 megawatts under transmission limitations.
4 We've now separated that out into two different
5 lines. One is under normal expected conditions;
6 and the second being adverse conditions. And so
7 with that, you'll see line 14 has included the
8 additional 550 megawatts that was last year
9 identified under expected conditions under line 11
10 there.

11 So this is a first step at identifying
12 how we're trying to better articulate the
13 probability of events occurring, under normal, and
14 then adverse conditions.

15 Basically using those same premises we
16 split the state out again into the four regions,
17 statewide, ISO-wide, north of Path 26 and south of
18 Path 26.

19 And as you can see on the first slide,
20 as well as the ISO slide, looking at the larger
21 regions, we do seem to be pretty comfortable under
22 normal, as well as again getting a little bit
23 closer under adverse conditions, looking at the
24 larger regions.

25 North of Path 26 shows where again I

1 guess I would say the most comfortable area of the
2 state is. We have ample resources under normal
3 conditions in the northern California region. And
4 that plays out to why when you look at the larger
5 regions as a whole, things look pretty good,
6 because of the excess availability of resources in
7 northern California.

8 And now back to the most limited area
9 and the concerns that we've had this year, for
10 south of Path 26 in the ISO area. Here, again, I
11 want to mention the fact that there are some new
12 plants, as well as some retirements that are
13 known. Those known again refer to Mojave in this
14 case.

15 The new additions in this case are
16 Malburg, Riverside, Mountainview and Palomar, all
17 expected to be online by June of next summer.

18 When you account for our modifications
19 to the expected operating conditions, again we
20 look like we're going to be in adequate shape
21 under normal weather and normal operating
22 conditions expected.

23 Again, here we have our standard
24 deviation of transmission outages located under
25 the adverse condition. And I do want to mention

1 the fact that we are moving forward with
2 probability analysis on the various conditions
3 that can cause outages.

4 We are still in the process of
5 collecting data on such things as transmission
6 limitation, transmission outages and other events
7 that can affect the reserve margins. And we're
8 not ready to actually publish that. We expect to
9 have that work probably included in our
10 preliminary staff report that we expect to publish
11 in early November. And have a workshop on that to
12 get that fully vetted on the process of looking at
13 probability of outages.

14 Now, one thing, an additional change I
15 didn't mention previous, and that is we used to
16 have, in our adverse conditions, a line called
17 high risk retirements. As a result of the
18 comments we received on our first outlook for the
19 IEPR, a number of the plant operators indicated
20 that they, in fact, were not planning to retire
21 even though they don't currently have a contract.

22 And so we felt it was prudent to re-
23 label them as not high risk for retirement, but
24 existing generation without contracts. Now, these
25 are the plants that are still considered aging.

1 They are, in this case, all located in south of
2 Path 26 region.

3 About 2000 of these 3000 megawatts are
4 owned by Reliant, who has indicated that they have
5 no plans to retire. Another close to 1000
6 megawatts owned by Dynegy, who has indicated that
7 they may retire. Right now they are recommended
8 to lose their RMR contract as a result of other
9 plants, Mountainview and Palomar, coming online.

10 So essentially these new plants that are
11 coming online are replacing the aging plants. If
12 the aging plants retire we're essentially no
13 better off necessarily than where we are today.

14 For 2007 and beyond, right now we expect
15 the resource adequacy process to have a
16 significant effect on the likelihood of these
17 plants getting contracts. We also have Otay Mesa
18 coming online in 2008. Again, right now we're
19 still in the preliminary process of our outlook.
20 And as we move forward, the known additions become
21 pretty scarce because of the fact that no one is
22 announcing new plants coming online.

23 But we'll continue to work with that.
24 And as data comes in, as we get closer -- as we
25 get more data from the resource adequacy process

1 we will be including and modifying our numbers as
2 far as what plants have contracts and how those
3 affect these bottomline numbers.

4 With that, I'll entertain any questions.

5 CHAIRPERSON DESMOND: Thank you, Dave.

6 PRESIDENT PEEVEY: I have a couple of
7 questions. This is just south of Path 26, this
8 last slide here?

9 MR. ASHUCKIAN: Yes.

10 PRESIDENT PEEVEY: On line 7, demand
11 response is 395 megawatts, all four summer months
12 next year. Last month with the southern
13 California, when we had that brief outage, what
14 was the demand response number we came up with,
15 335, something like that?

16 MR. ASHUCKIAN: I don't have that number
17 off the top of my head. It was pretty
18 significant. These numbers here reflect the same
19 numbers that we used for 2005. We have not gotten
20 the latest information to make any adjustments to
21 these numbers yet.

22 PRESIDENT PEEVEY: Okay, but you're
23 contemplating making an upward adjustment?

24 MR. ASHUCKIAN: That's right. This is
25 one area of data that's still coming in. These

1 programs are continuously being modified, so we do
2 plan to update these numbers as that information
3 comes available.

4 PRESIDENT PEEVEY: I would assume there
5 could be a significant upgrade here, --

6 MR. ASHUCKIAN: Yes.

7 PRESIDENT PEEVEY: -- very frankly.
8 Secondly, in the line 17 and 18, the adverse
9 scenario. That's the one-in-ten year and all
10 that, lines 16, 17, 18.

11 When you go down to line 19 it says
12 reserves needed to meet 7 percent reserve margin
13 with demand response and interruptibles. And it's
14 000 and then 331 megawatts. Obviously the 331 is
15 going to be reduced by the demand response
16 increase.

17 But beyond that do you happen to know,
18 or does anybody here, is anybody from LADWP here
19 right now, what DWP has in reserve in this kind of
20 scenario?

21 Department of Water and Power, Los
22 Angeles.

23 MR. ASHUCKIAN: Yeah, I'm not sure if
24 anybody's here from Los Angeles. I know they do
25 have some reserves and there were, you know,

1 discussions for this summer of them providing I
2 think up to 500 megawatts of capacity under
3 adverse conditions.

4 So that is not included in these
5 numbers.

6 PRESIDENT PEEVEY: If you included that,
7 plus an increase in demand response, basically
8 even under the one-in-ten scenario you meet the 7
9 percent plus reserve margin.

10 MR. ASHUCKIAN: Correct. And realize
11 that this is a 5.6 percent reserve margin under
12 adverse conditions. And so the system is still
13 operating. We're actually not into a rotating
14 outage situation.

15 PRESIDENT PEEVEY: No, I understand.

16 MR. ASHUCKIAN: So, --

17 PRESIDENT PEEVEY: And then what kind of
18 growth is inherent in all these numbers in terms
19 of statewide electricity peak percentage increase?

20 MR. ASHUCKIAN: Our demand staff are
21 here. I believe it's just a little bit under 2
22 percent is the projected growth.

23 PRESIDENT PEEVEY: But that's
24 understated, what's happened in the last couple of
25 years, those numbers.

1 MR. ASHUCKIAN: I don't believe it is.
2 Again, I think maybe we should have our demand
3 staff come up and articulate that more.

4 MS. MARSHALL: Lynn Marshall, Demand
5 Analysis Office. The numbers that we're using
6 here, as part of updating the forecast, we
7 incorporated 2004 consumption data and also some
8 weather adjustments to the 2004 peak we're using.

9 So it does pretty well accurately
10 reflect growth to date. Going forward, we don't
11 have as much growth, but it does reflect recent
12 history, I think.

13 PRESIDENT PEEVEY: All right, thank you.

14 COMMISSIONER GEESMAN: Mike, I think the
15 magic words she said were weather adjusted, --

16 PRESIDENT PEEVEY: I heard.

17 COMMISSIONER GEESMAN: -- and that's
18 where the numbers get confusing to follow. But
19 weather adjusted, our staff feels that their
20 forecasts have tracked.

21 CHAIRPERSON DESMOND: Commissioner
22 Pfannenstiel.

23 COMMISSIONER PFANNENSTIEL: David, just
24 back on some of the questions, in fact, that
25 Commissioner Peevey was following up on, the

1 demand response numbers.

2 You commented those are the same numbers
3 we projected for this summer; and that we came in
4 at something significant without actually knowing
5 what the number was.

6 I'm actually trying to figure out what
7 we might be expecting for next summer. You think
8 that there might be some programmatic additions.
9 For example, perhaps the demand response rate --
10 there will be an extension, expansion of the rate,
11 the demand response rate, Mike?

12 PRESIDENT PEEVEY: You mean critical
13 peak pricing?

14 COMMISSIONER PFANNENSTIEL: Right.

15 PRESIDENT PEEVEY: That's probably not
16 going to happen in the summer of 2006.

17 COMMISSIONER PFANNENSTIEL: So where
18 might there be additional programs? I'm trying to
19 figure out, if that doesn't happen, what else
20 might we be looking for?

21 PRESIDENT PEEVEY: There's a wide
22 variety of other things that could come in and
23 pick up another 60 or 100 megawatts. I can't
24 enumerate every single one of them off the top of
25 my head. Art, you could help on this.

1 COMMISSIONER ROSENFELD: We had hoped --
2 Mike and I had hoped to have demand response
3 critical peak pricing for the large customers in
4 by the beginning of the summer. But with the
5 ALJ's timetable and the cumbersomeness of the PUC,
6 we're thinking of doing it only late in the
7 summer.

8 PRESIDENT PEEVEY: Strike the cumbersome
9 part, Art. Just the data. That was an
10 unnecessary addition.

11 (Laughter.)

12 COMMISSIONER PFANNENSTIEL: Well, that
13 kind --

14 PRESIDENT PEEVEY: All you're doing is
15 making Geesman happy, now we know it's not --

16 COMMISSIONER PFANNENSTIEL: That's kind
17 of what I was trying to find out, is if this isn't
18 going to happen next summer. And we had been sort
19 of thinking that it would.

20 Two things. First of all, is there
21 anything else that's going to happen that would
22 offset the fact that that won't happen by next
23 summer? And second, is there anything we can do
24 to precipitate that decision before next summer?

25 PRESIDENT PEEVEY: Steve.

1 EXECUTIVE DIRECTOR LARSON: Excuse me,
2 Sean Gallagher just reminded me that in September
3 the demand response programs for the private
4 utilities will be submitted to the PUC. So we'll
5 get some more substantial information at that
6 time.

7 COMMISSIONER PFANNENSTIEL: Thank you.

8 CHAIRPERSON DESMOND: Susan. No
9 questions?

10 COMMISSIONER KENNEDY: Was it the look
11 on my face?

12 CHAIRPERSON DESMOND: Yes, it was.

13 COMMISSIONER KENNEDY: No, I'll save my
14 questions for the break.

15 CHAIRPERSON DESMOND: Thank you.
16 Commissioner Grueneich.

17 COMMISSIONER GRUENEICH: For the break?
18 I'm not understanding completely line 21 and how
19 it fits in. If we look at lines 17 and 18, are
20 they assuming that the generation that you show in
21 line 21 is available?

22 MR. ASHUCKIAN: Correct. We are
23 counting all 3000 megawatts of existing plants
24 that do not have contracts as if they will be
25 available come the summer of 2006. If those

1 plants do, in fact, retire prior to 2006 we will
2 have about 10 percent less capacity to serve our
3 load for south of Path 26.

4 So, in fact, we either need to make sure
5 those plants continue to operate through 2006, or
6 replace their capacity quick.

7 COMMISSIONER GRUENEICH: And then you
8 quickly listed the additional generation that we
9 will be seeing online by your projections for next
10 summer. Could you list them again?

11 MR. ASHUCKIAN: Number 3, line 3? Is
12 that what you're referring to?

13 COMMISSIONER GRUENEICH: Yes.

14 MR. ASHUCKIAN: For south of Path 26
15 that's Malburg, Riverside, Mountainview and
16 Palomar. And most of those plants are expected to
17 on well ahead of June.

18 COMMISSIONER GRUENEICH: Okay, thank
19 you.

20 CHAIRPERSON DESMOND: Dave, I had a few
21 questions. Maybe phrasing it a different way from
22 President Peevey, the state has a goal of 5
23 percent of meeting its system peak demand by 2007
24 which would put us at 4 percent for next summer
25 statewide, or at least within the investor-owned

1 utilities. How are we looking, based on the
2 targets that you're seeing right now?

3 MR. ASHUCKIAN: That's not a question
4 for me, unfortunately. I'm not sure if there's
5 any staff from our demand response programs to
6 answer that.

7 CHAIRPERSON DESMOND: Not seeing any
8 staff volunteers, I'd just ask that we follow up
9 and I'll task our staff with preparing that.
10 B.B., if you'd just make a note to pull that
11 information and circulate it to the Commissioners.

12 That was one question. Secondly, I
13 don't see Mr. Detmers here. Usually he's pretty
14 good about informing us of the operations of the
15 Cal-ISO, but could he or someone from the Cal-ISO
16 perhaps Ms. Smutny-Jones, address this issue of
17 the RMR contracts, and you know, where we stand,
18 how these have affected us, and whether or not the
19 ISO will revisiting these issues as we get a
20 little closer to next summer?

21 Microphone, please.

22 MS. SMUTNY-JONES: Yes. Can I just
23 clarify, you want some information today on RMR
24 and what that would be?

25 CHAIRPERSON DESMOND: I'm looking for

1 two things. One is the decision that the ISO
2 recently had to release these units from their RMR
3 designations compared to the statement I thought I
4 heard Mr. Ashuckian made about having to maintain
5 adequate capacity in that marketplace.

6 And then secondly, if we would be
7 revisiting -- excuse me, the Cal-ISO would be
8 revisiting these determinations at some point in
9 the future prior to summer 2006.

10 MS. SMUTNY-JONES: Yes. And today I
11 think Army can cover a little bit about what just
12 happened in our Board meeting last week relative
13 to RMR. So we'll try and weave that into the
14 discussion.

15 CHAIRPERSON DESMOND: Great. Thank you.

16 MR. ASHUCKIAN: I would like to point
17 out that these plants, if they don't have RMR
18 contracts, are now eligible to compete again back
19 in the marketplace through the resource adequacy
20 process.

21 CHAIRPERSON DESMOND: Thank you.

22 There's a question, Dave, I'll put this, and
23 hopefully Mr. Perez can address this on the line
24 item number 14. Any additional changes that we
25 can address regarding the zonal transmission

1 limitations as a way of either reducing the
2 adverse conditions or increasing the through-put
3 capacity.

4 MR. PEREZ: Joe, the only additions to
5 the system in 2006 timeframe will be what we call
6 the fast buildout of the Arizona-to-California
7 transmission, which includes replacing the
8 capacitors with higher rated capacitors.

9 All of that is scheduled to be there
10 between June of '06 and so the timeliness is
11 critical. I think the majority of the stuff will
12 be done by June, so it will be available for all
13 of this. And that will increase capacity anywhere
14 between 500 and 1000 megawatts.

15 CHAIRPERSON DESMOND: Great.

16 PRESIDENT PEEVEY: Well, how much would
17 that reduce this negative 550 number? It's line
18 14. You see from June through September it's a
19 minus 550. That's zonal transmission limitation.
20 And you say it'll be beginning to be reduced in
21 June.

22 MR. PEREZ: I need to know where the 550
23 came from. Exactly what path; how did he get the
24 550? I do not know the answer to that.

25 MR. ASHUCKIAN: That's a combination of

1 all the transmission going into the south of Path
2 26. It's actually in addition to the 400 under
3 normal conditions. It's essentially looking at
4 the average outage limitation data; it's the
5 amount of capacity that was dec'd.

6 PRESIDENT PEEVEY: Well, can we get some
7 expansion on that, or some detail on that; have a
8 better understanding of that compared to what
9 Armando is saying?

10 MR. ASHUCKIAN: Sure.

11 MR. PEREZ: I -- I --

12 PRESIDENT PEEVEY: How the two relate.

13 MR. ASHUCKIAN: And I did want to point
14 out that these numbers here have not taken into
15 account additional changes that have occurred this
16 summer, as well as what's going to happen between
17 now and next summer.

18 MR PEREZ: Yeah, that's what I'm afraid
19 about; the 550 will probably go to zero.

20 PRESIDENT PEEVEY: If the 550 goes to
21 zero, that's a dramatic impact on these numbers
22 here, very very dramatic.

23 MR. PEREZ: I would think so. I would
24 think so.

25 PRESIDENT PEEVEY: You know, I mean it

1 changes the whole thing. Nonetheless, I think the
2 efforts of Secretary McPeak, and I'll have to
3 continue for another year writing this monthly
4 coordination effort --

5 CHAIRPERSON DESMOND: It, in fact, is
6 the driver for making sure that the information
7 stays current and up to date. My expectation is
8 come December at the next quarterly meeting we'll
9 have a bit more detail, one, on the expected
10 demand response plans for the utilities; and two,
11 the details behind the transmission.

12 So, as we get closer. But as a first
13 cut, this is certainly an improvement over what we
14 were anticipating originally, so --

15 COMMISSIONER PFANNENSTIEL: Mr.
16 Chairman, perhaps also by the next meeting we'll
17 have a better idea of the decision coming out of
18 the PUC on the demand response rates, critical
19 pricing rates.

20 CHAIRPERSON DESMOND: Thank you. Unless
21 there's any further questions, we'll move to the
22 first item. Yes, Commissioner Grueneich.

23 COMMISSIONER GRUENEICH: We may be
24 addressing this at the end of the day, but one of
25 the things that I would like us to see for our

1 next meeting is probably something that gives us a
2 little bit of a snapshot at '07 and '08 so that
3 we're not just literally one year ahead.

4 And I wanted to do a little bit of a
5 flip from the focus on southern California, which
6 is we are seeing quite high reserve margins in
7 northern California. And that's a balance between
8 having a robust availability of generation, but
9 also from a ratepayer's viewpoint, are we getting
10 into the stage of we're literally bringing online
11 too much.

12 And I think that if we could have some
13 input from the staff at the next meeting of how
14 they're looking at the longer term look for
15 northern California, to help us be a little bit
16 more informed in our decisions, it would help.

17 CHAIRPERSON DESMOND: Thank you. Next
18 item on the agenda is the first item. And we will
19 now review recent southern California transmission
20 emergency. This is a joint presentation from Sean
21 Gallagher at the PUC, together with Mr. Army Perez
22 from the Cal-ISO.

23 MR. PEREZ: Well, good morning. It's a
24 pleasure being here with you, as usual. I will
25 try to cover the first couple of slides. Mr.

1 Gallagher then will finish the presentation. And
2 then we'll both be available for any questions
3 that you may have.

4 At 3:47 p.m. of one of the most
5 memorable days in my life, the Pacific DC intertie
6 tripped. ISO load at that point in time was
7 running about 2200 megawatts higher than
8 anticipated due to a temperature of up to 14
9 degrees higher than forecast.

10 I'd like to put that 2200 megawatts into
11 context. A load that is 2200 megawatts higher
12 than expected is equivalent of having lost two
13 units at San Onofre. Just keep that in mind.

14 We issued a restricted maintenance
15 operations in southern California, but we're not
16 in a station of emergency. The restriction
17 maintenance means basically do nothing, touch
18 nothing that will make the system trip our
19 facility.

20 The loss of the PDCI was 2600 megawatts
21 flowing into southern California caused the ISO to
22 declare a transmission emergency. At 3:51 the ISO
23 requested 800 megawatts of SCE interruptible load,
24 465 interruptible load off, 450 -- get this right,
25 465 megawatts of interruptible load, 253 megawatts

1 of AC cycling, and 47 megawatts of pump load.

2 At 3:52 the Bonneville Power
3 Administration remedial action scheme -- shed when
4 they saw the loss of the DC line. That
5 immediately cost us 2249 megawatts of northwest
6 generation to be tripped offline.

7 At 3:53 the ISO requested the load in
8 Southern California Edison to be dropped by 800
9 megawatts. That is now firm load. 100 megawatts
10 from San Diego and several amounts from the
11 different municipalities that are a part of the
12 ISO.

13 The MWD dropped 55 megawatts of load;
14 and various municipal participants removed 26
15 megawatts of additional firm load. The California
16 Department of Water Resources pumps were already
17 off, so that's not much we could do there.

18 SCE had sufficient notice to utilize its
19 individual circuit load dropping scheme so
20 essential circuits were protected. That basically
21 means we kept the hospitals and all the facilities
22 energized.

23 I think Mr. Gallagher is going to finish
24 it now.

25 MR. GALLAGHER: Thank you, Army. Good

1 morning. One thing we wanted to point out is that
2 this outage was not due to insufficient generating
3 resources in the system. As Army mentioned, load
4 was running about 2200 megawatts higher than
5 predicted because the weather forecast was missed.
6 But there was enough -- there were enough
7 resources online to meet that increased load.

8 Therefore the event was a transmission
9 emergency rather than a stage III emergency. And
10 we have some definitions here. A stage III
11 emergency is called when reserve requirements and
12 demand exceed available generating resources.
13 Again, that's not what happened on August 25th.
14 It was a transmission emergency, which is declared
15 for an event that threatens, harms or limits
16 capabilities of any element of the transmission
17 grid, and threatens grid reliability.

18 All the firm load that was dropped was
19 restored in less than an hour. About 4:30 p.m.,
20 that's 45 minutes after the line was taken out of
21 service, the DC line was restored and operational.
22 Edison started restoring firm load around 4:20
23 p.m. There's a slight discrepancy in some of
24 these times by a few minutes.

25 We were informed that the full 800

1 megawatts of firm load that was dropped in the
2 Edison service territory was back by about 4:41
3 p.m.; SDG&E was back online by 5:00 p.m. with all
4 its firm load; and all the interruptible load was
5 restored by 5:08.

6 So within about an hour both the firm
7 load and the interruptible load was back online.

8 The cause of the outage was a
9 malfunction at the Sylmar substation in the LADWP
10 service territory. As you know, most transmission
11 facilities are alternating current facilities.
12 The DC line requires converter stations at both
13 the sending and receiving ends to convert AC
14 power, from DC back to AC. The DC line has
15 converter stations at I think it's pronounced
16 Celilo, or Celilo, in the BPA service territory
17 and at Sylmar in the LADWP service territory.

18 The outage occurred at Sylmar and we
19 should point out that Sylmar and the DC line,
20 although they're operated by LA, the DC line is
21 owned jointly by Edison and LADWP, as well as some
22 other municipal utilities.

23 The PUC sent an investigator out to
24 Sylmar the day after the outage and DWP reported
25 to us that the outage was caused by a malfunction

1 of a relay that caused a circuit interruption.

2 I'm not going to get into the technical details
3 because if I try to I'll just mess them up.

4 But, essentially a warning device acted
5 as if there was a problem. There wasn't really a
6 problem with the line, that's why it was able to
7 be restored so quickly. But this protection
8 device tripped and the line was taken out of
9 service. LA was then able to bypass this relay
10 and bring the DC line back in service.

11 And this relay will be replaced by LA,
12 we're told, in outages due to take place in
13 October, and they'll fix this relay. They'll be
14 able to bypass the relay until then; and there are
15 other protective devices on this circuit in order
16 to protect us if there are further events on the
17 line.

18 That's all we have. If there's
19 questions I'm available, and Army's also
20 available.

21 CHAIRPERSON DESMOND: Thank you.
22 Commissioner Geesman.

23 COMMISSIONER GEESMAN: Sean, has there
24 been any estimate of economic value of foregone
25 business activity during the outage?

1 MR. GALLAGHER: We've been talking to
2 Edison about that. We don't have any numbers on
3 that yet, no.

4 COMMISSIONER GEESMAN: During the Bay
5 Area outages in 2001 the number that was commonly
6 passed around was \$40 million a minute. Is there
7 any reason to think that it would be different in
8 southern California?

9 MR. GALLAGHER: Again, I don't have any
10 numbers on that, so I really can't say.

11 COMMISSIONER GEESMAN: Would the
12 situation have been avoidable had there been
13 additional transmission access into southern
14 California, such as the Devers-Palo Verde 2 line?
15 That may be a question more for Army than --

16 MR. GALLAGHER: Yeah. Army, can you
17 answer that one?

18 MR. PEREZ: That's possible, provided
19 there were enough generation reserves in Arizona
20 that we could have brought in, yes.

21 COMMISSIONER GEESMAN: Thank you.

22 CHAIRPERSON DESMOND: Commissioner
23 Kennedy.

24 COMMISSIONER KENNEDY: Thank you. First
25 of all, Army, could you go back to at 3:52 BPA RAS

1 initiated, and tell me what that is, again?

2 MR. PEREZ: Sure. It's remedial action
3 scheme. It's just a scheme that says I lost --
4 it's a computer noticing that the DC line is no
5 longer operational. And with that tie line broken
6 what happens is all of the power that was coming
7 on the DC line now tries to move over to the AC
8 line.

9 The moment that happens it overloads the
10 interties between us and the Pacific Northwest.
11 And they drop generation in order to bring the
12 loading down.

13 COMMISSIONER KENNEDY: So where was that
14 generation dropped?

15 MR. PEREZ: All within the Pacific
16 Northwest, the BPA area. Portland area,
17 Washington State area, most of the Columbia River.

18 COMMISSIONER KENNEDY: So was there any
19 loss of load or load shedding outside of
20 California?

21 MR. PEREZ: Outside of California. Not
22 to my knowledge.

23 MR. GALLAGHER: I believe the answer is
24 no according to our information.

25 COMMISSIONER KENNEDY: Second question.

1 On the forecast of temperatures, being 14 degrees
2 higher than forecast, can you tell me when the
3 forecast is made, and when the 14 degrees
4 differential occurs. Because my sense is I know
5 from watching the news the night before that it's
6 hotter than usual. So I'm just curious when the
7 forecast is made, that we couldn't anticipate a
8 14-degree difference.

9 MR. GALLAGHER: Army, I think that's for
10 you.

11 MR. PEREZ: Mine? Okay. Just wanted to
12 make sure. The forecast was made the day ahead.
13 And it's based on the forecast of temperatures by
14 three different weather forecasters.

15 So by the time things started to
16 divert--

17 COMMISSIONER KENNEDY: I'd suggest we
18 change stations.

19 MR. PEREZ: Excuse me?

20 COMMISSIONER KENNEDY: Change channels.

21 (Laughter.)

22 COMMISSIONER KENNEDY: Well, I mean the
23 last three times we've had a staged emergency that
24 I can recall, and including this incident, the
25 primary answer seemed -- one of the primary

1 answers seemed to be there was a huge difference
2 in the forecast and the actual temperature.

3 And I just, I don't think temperatures
4 change that fast. So I'm --

5 MR. PEREZ: Well, that's exactly what
6 happened. What happened here, I believe, I'm not
7 a weather expert but I'll give you my explanation,
8 we have what they call a Santana (sic) condition
9 that develops in southern California in which
10 instead of the typical flow being from the ocean
11 to the deserts, the flow changes from the deserts
12 to the ocean.

13 And that 14 degrees weather caused a
14 2200 megawatt shift in load. And I've been in the
15 industry for 30-some years, and I never seen
16 anything like a 14-degree, you know, miss the
17 forecast by 14 degrees.

18 SECRETARY McPEAK: If I might --

19 MS. SMUTNY-JONES: Could I add real
20 quick; Army, correct me if I'm wrong. I believe
21 that normally the forecast is within a couple
22 percent. So the 14 percent is quite different.

23 I think average we're within a couple of
24 percent, Army?

25 MR. PEREZ: Yeah.

1 COMMISSIONER KENNEDY: So, is there --
2 do you want to ask further on that question?

3 SECRETARY McPEAK: No, I was just going
4 to comment I had exactly the same reaction when we
5 got this report, you know, last month. And it is
6 also worth looking at exactly what time of the day
7 are the day-ahead forecasts done, and then the
8 orders placed.

9 And when did they know that there was
10 going to be the likelihood of the shift. Because
11 it actually is an hour-by-hour kind of minute-by-
12 minute management --

13 MR. PEREZ: Right.

14 SECRETARY McPEAK: -- and there was more
15 advanced notice by 10:00 in the morning.

16 MR. PEREZ: Right.

17 SECRETARY McPEAK: They knew it was
18 going to be higher than had been the forecast the
19 day before when the orders were made. And so the
20 question really always is, so what could we have
21 done differently and better in order to not have
22 this, including --

23 COMMISSIONER KENNEDY: Right.

24 SECRETARY McPEAK: -- could we have
25 detected the faulty relay device. So, go ahead.

1 COMMISSIONER KENNEDY: Yeah, and I'm
2 not --

3 MR. PEREZ: It's also worth noticing,
4 just for your information, that the units that
5 you're going to need tomorrow are committed today.
6 So once the units are committed today, the next
7 day there's not a lot that you can do if you have
8 units that takes eight hours or 10 hours or 12
9 hours to bring online.

10 COMMISSIONER KENNEDY: Understand. I'm
11 not being critical, I mean I just --

12 MR. PEREZ: No, no, I --

13 COMMISSIONER KENNEDY: -- I just, from
14 an analytical perspective, --

15 SECRETARY McPEAK: I was.

16 COMMISSIONER KENNEDY: -- I need to know
17 if this is a "shit happens" explanation and
18 there's no way around that, or are the weather
19 patterns changing to the point where we need to
20 adjust our weather forecasting? Is that possible,
21 or --

22 MR. PEREZ: Yeah, that's one of the --
23 probably one of the recommendations that are going
24 to come out of the incident, yes.

25 COMMISSIONER KENNEDY: So there is

1 something we can do differently about our weather
2 forecasting that perhaps might --

3 MR. PEREZ: I don't know the answer to
4 your question, but we're certainly going to ask
5 that question of the weather forecasters.

6 COMMISSIONER KENNEDY: I don't think I
7 have another question. Thanks.

8 CHAIRPERSON DESMOND: Okay.
9 Commissioner Grueneich.

10 COMMISSIONER GRUENEICH: Yes, I wanted
11 to focus a little bit on this faulty relay. Who
12 is in charge of the inspection and maintenance
13 program for these relays? It's a jointly owned
14 intertie, but it sounds, from the briefing, it's
15 LADWP's responsibility?

16 MR. PEREZ: Yes, it is.

17 COMMISSIONER GRUENEICH: Okay. And are
18 we -- is there any sense that there was a problem
19 with the inspection and maintenance program? And
20 are there any efforts being made essentially to
21 beef it up, again looking at what we can do to
22 prevent this in the future?

23 MR. PEREZ: I don't think I have the
24 answers to your questions. I think those
25 questions will be asked of LADWP. How would you

1 guarantee that in the future we don't have a
2 repeat of this accident -- or this incident.

3 Usually that comes out of every single
4 investigation that is a major disturbance to the
5 system. So we will be asking that question.

6 COMMISSIONER GRUENEICH: Okay, so this
7 will be under the ISO's purview and LADWP, you're
8 anticipating will respond?

9 MR. PEREZ: No, no, --

10 COMMISSIONER GRUENEICH: I mean, are we
11 getting again, once again into our problem of
12 there's a limit to the ISO control area; we've got
13 a problem caused by a municipal utility; and
14 there's a certain lack of information flow. Yet
15 the impacts are quite clearly to both the ISO
16 control area, as well as to the ratepayers in
17 southern California, the investor-owned utilities?

18 MR. PEREZ: I think it's fair to say
19 that the ISO will ask that question. But more
20 importantly, the WECC will probably be asking that
21 question. And they have to pay attention to what
22 they're doing.

23 CHAIRPERSON DESMOND: Before we go --
24 further questions? Before we go to Commissioner
25 Kennedy, I just wanted to clarify that the

1 problem, I don't think, was solely caused by the
2 failure of the municipal. It was the combination
3 of the equipment failure in combination with the
4 forecast being off. So there is some shared
5 responsibility there on both sides. So.

6 COMMISSIONER KENNEDY: Okay, you just
7 gave me a second question, second follow-up. The
8 first one is how was this incident in any way
9 similar to the incident on the east coast that
10 caused cascading blackouts?

11 And what was different about what
12 happened out here that prevented it from actually
13 cascading into a wider problem?

14 MR. PEREZ: Good question. Basically
15 what you saw here is the California ISO noticing
16 they had a problem; taking immediate action to
17 solve that problem and stabilize the system, which
18 includes the 800 megawatts of firm load dropping.
19 And having the whole situation under control
20 within 20 or 25 minutes.

21 What happened back east is a problem
22 with people not communicating; people looking at a
23 problem in the face and not doing what was
24 supposed to have done. And then letting the
25 problem become a cascading event that took out the

1 entire east coast.

2 COMMISSIONER KENNEDY: So, aside from
3 the heroic efforts of the humans involved, are
4 there technical issues that make these incidents
5 different, or the outcomes different? Is it
6 different, the fact that the other crossed RTOs or
7 ISOs?

8 MR. PEREZ: I --

9 COMMISSIONER BROWN: Wasn't it true,
10 Armando, --

11 COMMISSIONER KENNEDY: I have a --

12 COMMISSIONER BROWN: -- wasn't it true
13 that in the eastern situation the problem was
14 running across several RTOs, as opposed to one RTO
15 that had control?

16 MR. PEREZ: It was. And it was people
17 seeing their voltages going down and down and not
18 doing anything about it, when it was clear that at
19 some point in time a load dropping was really what
20 was needed.

21 Had they dropped load there would have
22 been no east coast incident. Like we did. We
23 dropped load and we avoided the problem from
24 spreading.

25 But I'm not sure I can answer the

1 question that you asked.

2 COMMISSIONER KENNEDY: Well, what I'm
3 trying to drill it out on is I have heard, after
4 the east coast blackouts we all got asked these
5 questions. How would we prevent that from
6 happening here, you know, what's different about
7 California.

8 And I believe -- the answer I was given,
9 and I believe it, is that after the energy crisis
10 we've invested more dollars in our transmission
11 system, both on a technical basis and in training
12 of the humans involved. And so there's a
13 combination of we have a better system that
14 catches these incidents faster.

15 And I want to know if that, in fact, is
16 what occurred here, something technical. And then
17 second, can we attribute 80 percent of this to,
18 you know, faster human response?

19 MR. PEREZ: I think a lot of it has to
20 be with the faster human response. If you go back
21 not only to the east coast blackout, but the New
22 York blackout. And if you get to play the tapes
23 of the people that were operating the system at
24 that time, and feel what they were feeling, and
25 they did not want to drop load in New York. And

1 that's exactly what they needed to do.

2 We've learned from all of those. And
3 after each one of those events there was a very
4 thorough investigation about what went right and
5 what went wrong and what are you going to do
6 differently.

7 We have very good systems in California
8 that tells exactly what our limits are. It's
9 called a path limit methodology. The east coast
10 is totally different.

11 So the systems are different; the
12 interconnection is different. I think WECC is
13 probably the best interconnection of all of them,
14 of all ten of them. And being very forward in
15 what they do and they maintain the reliability.

16 So, it's a combination of experience,
17 history, and learning from each one of these
18 events so it won't happen again.

19 COMMISSIONER GEESMAN: Army, aren't we
20 eroding our margin for error, though, in terms of
21 having not really built up enough resiliency in
22 the system that we have?

23 And I asked you the question about
24 Devers-Palo Verde 2. It would seem to me if we
25 had stuck with that project in 1985 when Edison

1 first filed the CPCN for it, we might not find
2 ourselves in this fix today.

3 And the reactive nature of our planning
4 process that would allow a project like that to
5 simply fester for 20 years, pursued really at the
6 whim or corporate strategy of the IOUs sponsoring
7 it. When they were interested in the project,
8 they pushed it. When they weren't, they didn't.

9 The CPCN was ultimately granted. Mike,
10 I think that's a compliment that I'm giving the
11 CPUC. But then Edison asked that it be withdrawn.

12 It just seems to me that these are the
13 consequences that we have to suffer when we allow
14 our margin for error to erode to the extent that
15 it has.

16 I wonder if you'd respond to that?

17 MR. PEREZ: Well, transmission planning
18 has always been a balancing act between trying to
19 determine how much money to spend on transmission
20 versus the reliability that you get for it.

21 Transmission planning has been
22 deterministic from day one, which I'm totally
23 against it. I think transmission planning should
24 be probabilistic. But I haven't been successful in
25 getting anybody to listen to me. But that's fine.

1 Margins have eroded. There's no doubt
2 about it. I would say from the mid 1980s, we're
3 building less transmission than I would feel
4 comfortable with. And you pay the price. When
5 you have less transmission you run the risk that a
6 contingency that you haven't quite planned for --
7 I mean everybody planned for say the next M-1.
8 It's do you want to plan for the M-2s or the M-3s.

9 And when you do that, then you're
10 talking lots and lots of money that has to be
11 poured into the system. The question is to have a
12 balance between those two that makes sense. Where
13 that balance is, I like to work with, we'll find
14 it.

15 COMMISSIONER KENNEDY: My final
16 question, I need to understand the relationship
17 between the increased load from the weather and
18 the response to the incident. If you could
19 explain if the 2200 megawatts of higher load from
20 the weather were not a factor, were not present,
21 and the 500 megawatt DC line tripped or went down.
22 What would have happened?

23 MR. PEREZ: Nothing. Nothing would have
24 happened.

25 COMMISSIONER KENNEDY: Why? What --

1 MR. PEREZ: Because the 2200 megawatts
2 are feeding into all of the reserves that we had
3 at that point in time. And if you're not serving
4 2200 megawatts of load, if you're not serving
5 that, which we were at that point in time, then
6 you don't need to drop 800 megawatts of firm load
7 to take care of the DC incident.

8 COMMISSIONER KENNEDY: So the fact that
9 the relay around the faulty switch, whatever that
10 was, was not immediate? That there was some delay
11 in terms of relaying that power flow. It wouldn't
12 have caused any load shedding?

13 MR. PEREZ: Okay, you sort of lost me
14 this time. Try that one more time.

15 COMMISSIONER KENNEDY: Electricity's
16 flowing across this line. Robin seems to get it.
17 Do you understand that question?

18 MS. SMUTNY-JONES: I think, if I --

19 COMMISSIONER KENNEDY: There wasn't an
20 automatic relay. There was -- it went down, the
21 line actually tripped.

22 MS. SMUTNY-JONES: You're suggesting the
23 relay was delayed? And I think that's --

24 MR. PEREZ: The relay did what it needed
25 to do. The bringing down of the DC line is a

1 manual action taken by LADWP. Does that help you?

2 COMMISSIONER KENNEDY: It was a manual
3 action?

4 MR. PEREZ: Manual action, right.

5 COMMISSIONER KENNEDY: I see. That
6 answers my question.

7 CHAIRPERSON DESMOND: Thank you.
8 Secretary McPeak.

9 SECRETARY McPEAK: Mr. Chairman,
10 Secretary Chrisman and I and our colleagues in the
11 cabinet are spending a lot of time these days
12 looking at are we prepared enough for a variety of
13 emergencies or circumstances.

14 And we were just conferring about how
15 important it is to try to foresee all of the
16 potential adverse conditions we might face. And
17 also how critical immediate action is.

18 And in this case, as I have had the
19 opportunity to go through the briefing, debriefing
20 of this incident, and to see what actions were
21 taken, it is very remarkable, as a matter of fact,
22 I think the ISO is to commended. And there was a
23 lot of conferring, as I gather, Mr. Chairman, that
24 you were involved in and others in the
25 Administration.

1 That it was a very model kind of
2 response and coordinated effort. And within an
3 hour to be back up was terrific.

4 Having said that, adverse conditions are
5 likely to take out transmission. You know, had
6 there been a wildfire happening, or broader, you
7 know, conditions, we would have been in even more
8 a world of hurt.

9 So, as I look at it, the questions that
10 Commissioner Geesman are asking about, sufficient
11 transmission redundancy, given the geography and
12 the weather conditions that we are faced with on a
13 periodic basis in California deserves our
14 attention.

15 The question about, you know, relay
16 maintenance, or looking at who is responsible and
17 seeing what else we can do, and then obviously the
18 weather forecasting. But I think we need to spend
19 even more time on the transmission redundancy.

20 CHAIRPERSON DESMOND: Thank you.

21 MR. PEREZ: Believe me, I am.

22 CHAIRPERSON DESMOND: President Peevey.

23 PRESIDENT PEEVEY: Of course the
24 question there is the cost. I mean it always
25 comes down to cost. You could build a redundant

1 system that's, you know, very very sound so you
2 never have this kind of situation. But the cost
3 could be considerable. And if we had more
4 transmission we wouldn't have it.

5 It seems to me, though, that there's a
6 more fundamental thing here. And that is that in
7 California, regrettably, I mean, the DC line is
8 what, rated 3100 kW I think it is -- isn't it?

9 MR. PEREZ: Megawatts.

10 PRESIDENT PEEVEY: Yeah, I mean, excuse
11 me, megawatts. And I mean it was originally --
12 it's half owned by DWP, half owned by the other
13 three utilities, the IOUs. But operated, since
14 1962, by DWP.

15 DWP's not in the ISO. It's just like
16 SMUD, not in the ISO. WAPA not in the ISO. And I
17 just say to my colleagues here, the more
18 fundamental problem is you don't have
19 centralization, you have a Balkanization of this.

20 And so even though the power was headed
21 for Edison and San Diego customers over a DWP
22 line, ISO didn't have any true control over this
23 matter. And that is the true significance of all
24 this, as far as I'm concerned.

25 And I'm disappointed there's nobody here

1 from DWP today, because they don't want to hear me
2 give the speech again about why they ought to at
3 least cooperate a hell of a lot more with the Cal-
4 ISO.

5 But I think it's why, despite what
6 happened in the northeast, despite the policy
7 pronouncements that came out of that situation
8 about you had to have more centralization and a
9 better understanding of the interrelationships
10 between the RTOs and work committees and
11 everything else, we still got in a situation after
12 that of having WAPA go join SMUD.

13 I mean it's absolutely insane, as far as
14 I'm concerned, in terms of transmission planning
15 and adequacy in California. If you had that, you
16 wouldn't need to much redundancy. I mean it's
17 really that simple.

18 And we've allowed ourselves to get into
19 a situation despite the efforts of the Energy
20 Commission, the PUC, the Governor and others,
21 we've lost this battle with DOE so far.

22 COMMISSIONER GEESMAN: Do you see that
23 changing?

24 PRESIDENT PEEVEY: I don't see it
25 changing in the next couple of years, no.

1 COMMISSIONER GEESMAN: Next couple of
2 decades.

3 PRESIDENT PEEVEY: Well, --

4 CHAIRPERSON DESMOND: Mr. Perez, I
5 actually had a couple follow-on questions, and
6 would also note that President Peevey's concerns
7 were, in fact, memorialized in a letter that you
8 sent off to Secretary Bodman of the DOE, I
9 believe.

10 PRESIDENT PEEVEY: And we got the brush-
11 off.

12 CHAIRPERSON DESMOND: Also note there is
13 a representative from LADWP who raised his hand in
14 the back of the room, so --

15 (Laughter.)

16 CHAIRPERSON DESMOND: -- although he's
17 not volunteering to address these issues, they
18 would note they have a representative here.

19 The question I have is twofold. One is
20 will the Cal-ISO's or the WECC's investigation of
21 this be limited solely to the incident and the
22 causes, or will it consider broader security
23 reliability implications on other similar
24 interconnections when it produces its report?

25 MR. PEREZ: It will make recommendations

1 based on what we learned from this incident that
2 are broader in nature. I mean it just doesn't
3 apply to one incident between us and LADWP. It's
4 just the incident, in general.

5 CHAIRPERSON DESMOND: Okay. The second
6 part is the Federal Energy Policy Act just signed
7 into law has FERC now taking on responsibility for
8 implementing mandatory reliability requirements.
9 Can you give us a quick snapshot as to both the
10 timing and the implications for the ISO control
11 area, and to the extent you believe that it also
12 impacts the municipal utilities, how that's likely
13 to affect them, as well.

14 MR. PEREZ: Okay.

15 CHAIRPERSON DESMOND: It's important,
16 so --

17 MR. PEREZ: No, I understand.

18 CHAIRPERSON DESMOND: -- take your time.

19 MR. PEREZ: Okay. We have mandatory
20 reliability standards now coming out of the order
21 from FERC which came out just recently. What's
22 going to happen is FERC is going to determine what
23 an ERO, or electricity reliability organization,
24 is going to be.

25 The ERO, which most likely, but not

1 assuredly, will be the North American Electric
2 Reliability Council out of Princeton, will be
3 selected as the ERO for the country. Now there
4 may be more EROs, but at least that one, we
5 believe, is going to be the one that takes over.

6 And they're going to be filing here
7 within the next 30 days or so to become such an
8 ERO.

9 The ERO, all standards, reliability
10 standards will now be FERC approved. And the ERO
11 will have a process in which they also will try to
12 submit new standards or change the standards as
13 necessary.

14 The ERO, at least one way of looking at
15 it is, will delegate enforcement authority to
16 regional entities. The regional entity for us may
17 be WECC or, in fact, it could be the California
18 ISO. I don't know exactly where that's going to
19 land.

20 Once that takes place then those
21 entities will be doing work to make sure that all
22 of the organizations are abiding and complying
23 with reliability standards. And if they are not,
24 they will be fined. And the fine will probably be
25 dependent upon how many times they catch you with

1 your hand in the cookie jar. One time would be a
2 letter; the second time would be a lot of money.

3 And really, this is all should be
4 implemented next year. The exact timing of that,
5 I don't have it, but it will be implemented next
6 year.

7 CHAIRPERSON DESMOND: Thank you. Is it
8 possible we'll have more information that we could
9 include that as an agenda item at the next
10 quarterly meeting if there's been any significant
11 progress?

12 MR. PEREZ: We certainly can do that,
13 right; that's not a problem. We have to do that.

14 CHAIRPERSON DESMOND: Great, thank you.
15 Any further questions on this issue?

16 MR. PEREZ: I will now try to answer
17 your RMR question if you promise me you're not
18 going to ask me 14 more, because that's usually
19 what happens.

20 CHAIRPERSON DESMOND: Yes.

21 MR. PEREZ: Okay. RMRs, our machines
22 are selected on the basis of solving local
23 reliability problems. Remember, this machine will
24 have market power if they don't have an RMR
25 contract. And they're required to be online to

1 serve local reliability problems where
2 transmission is not there to do that.

3 RMR are selected on a yearly basis. We
4 just finished up the last Board meeting with a
5 selection of RMR machines for the year of '06.
6 That, itself, is problematic because to have a
7 one-year contract is not conducive to a lot of
8 stuff, so we're not going to go that way.

9 The one point is that we do not select
10 RMR units to meet load and resources requirements,
11 which is why he was concerned.

12 Is there a problem that if you don't
13 have an RMR unit in '06 you may need it in '07?
14 Yes. Is there a problem that not having an RMR
15 unit may create a problem in '07? Yes. But we
16 have never looked at the entire package of saying,
17 well, if you're going to consider for locational
18 requirements plus LNR requirements, I don't know
19 how many more units we'll have to bring in; it may
20 be substantial.

21 Now, a lot of those issues will be taken
22 care of through the LCR process, which, I believe,
23 is scheduled for an ALJ decision in September,
24 helping Mike. And then a decision by the
25 Commission in October. If that takes place, a lot

1 of those issues are certainly going to go away.

2 CHAIRPERSON DESMOND: Thank you very
3 much. I have no further questions. Any others?

4 Mr. Perez, thank you; Mr. Gallagher,
5 appreciate that. I'd also like to acknowledge
6 that in the audience joined us is Cal-ISO Board
7 Member Elizabeth Lowe; if you'd just raise your
8 hand so we can see that. If anytime you have a
9 question, just raise your hand, I'd be happy to
10 have you jump in.

11 Next item on the agenda is number 3;
12 we're going to discuss the Governor's energy
13 policies and response to the Integrated Energy
14 Policy Report.

15 Mr. Kelly, do we have a presentation to
16 accompany this?

17 MR. KELLY: I believe we do.

18 MR. GALLAGHER: Good morning, again.
19 I'm going to just speak very briefly about how the
20 CEC's Integrated Energy Policy Report process and
21 the PUC's long-term procurement plan are going to
22 fit together this year and next.

23 First, we show the old way of the CEC
24 and the PUC cooperating together.

25 PRESIDENT PEEVEY: Notice I'm on the

1 right.

2 (Laughter.)

3 MR. GALLAGHER: What's an old photo?

4 Isn't that former PUC Commissioner Lynch up there?

5 (Laughter.)

6 MR. GALLAGHER: I can leave this up as

7 long as you'd like. I'm sure we'd get another

8 good ten minutes of --

9 (Laughter.)

10 MR. GALLAGHER: Now you see the new way

11 of PUC/CEC cooperation where the Energy

12 Commission's policy report flows smoothly into the

13 PUC's long-term procurement proceeding. And both

14 proceedings consider new resources that are

15 consistent with the loading order. So that

16 includes energy efficiency, it includes

17 renewables, it includes conventional resources.

18 President Peevey issued a ruling in

19 March to try to put some flesh on the bones of the

20 previous slide. In the ruling he articulated that

21 the Energy Commission's proceeding is the

22 appropriate venue to determine load forecasting,

23 resource assessment, to do a transmission

24 assessment, and to look at scenario analyses.

25 When the CEC completes its work and

1 publishes the policy report in November, it will
2 also provide to us a transmittal report that
3 includes its findings intended to be used in the
4 PUC's proceeding.

5 The PUC, then in the long-term
6 procurement proceeding, will attempt to use the
7 CEC's findings to the maximum extent possible.
8 The principal reasons for us relitigating any
9 issues that were addressed in the Energy
10 Commission's policy report or process would be if
11 there were changed circumstances or new
12 information.

13 Here you see a sort of schematic of the
14 timeline. I believe the Energy Commission's
15 report is due out in November. Shortly after that
16 we intend to publish a ruling that will set the
17 schedule for the procurement proceeding. At this
18 point we expect the utilities to file applications
19 in the first quarter of next year. We'll have
20 public comment, potentially hearings. We haven't
21 decided that yet. And then a decision late in the
22 year, probably in the fourth quarter.

23 For a little more detail on that, the
24 draft policy report will be released this month.
25 The Energy Commission is planning a series of

1 hearings in September and October on various
2 topics. In November the report will be adopted.
3 Again, after the publication and adoption of the
4 policy report, the PUC will outline the schedule
5 for the 2006 long-term procurement plan. And then
6 we'll go through the process with a fall or late
7 2006 decision on adopting the procurement plans.

8 That's it in a nutshell.

9 CHAIRPERSON DESMOND: Thank you.

10 COMMISSIONER GEESMAN: Mr. Chairman.

11 CHAIRPERSON DESMOND: Commissioner
12 Geesman.

13 COMMISSIONER GEESMAN: Sean, one of your
14 slides had a point on confidentiality that I don't
15 think you touched on in your verbal remarks.

16 MR. GALLAGHER: I intended to sort of
17 gloss over that one.

18 COMMISSIONER GEESMAN: Why don't we go
19 back to that? Do you want to elaborate on that
20 point?

21 MR. GALLAGHER: I'm not sure I have the
22 most up-to-date information on this. I know the
23 Energy Commission had a lengthy hearing last week;
24 it followed a prior lengthy hearing.

25 My understanding is that there is a

1 limit to the extent of the confidential -- well, I
2 should probably restate this. There's a debate
3 over whether certain information submitted to the
4 Energy Commission should be held confidential or
5 publicly disclosed.

6 I believe the Commission wants to
7 publicly disclose the information or certain
8 information; the utilities want to keep some of
9 that information confidential.

10 And there's a concern -- this really
11 goes, as I understand it, anyway, to the sort of
12 net short information. There's a concern from the
13 utilities' perspective that making that
14 information public could affect their position in
15 the market.

16 Depending on what the Energy Commission
17 considers in its policy report, and what
18 information is provided to us, our Commission has
19 to determine whether or not we have sufficient
20 information to simply accept the Energy
21 Commission's findings or not.

22 And there's been some concern through
23 the course of the year that if the Energy
24 Commission report was based solely on publicly
25 disclosed information, that there may be some lack

1 of specificity in certain areas that we'd have to
2 revisit in the procurement proceeding.

3 So we're still waiting to see exactly
4 what comes out of the Energy Commission's process
5 to figure out whether and to what extent we have
6 to go over issues again in the procurement
7 proceeding next year.

8 COMMISSIONER GEESMAN: And would that
9 revisiting be a confidential revisiting, or
10 conducted in a public process?

11 MR. GALLAGHER: I think that depends on
12 what the information is that's at issue.

13 COMMISSIONER GRUENEICH: Yeah, we have
14 opened up a confidentiality proceeding at the PUC.
15 And one of the first things that we are looking at
16 is what is going to be, whether we're going to
17 revise our standards on confidentiality.

18 As you know, we have a different
19 standard from the Energy Commission set by state
20 law. And so I think it's impossible, John, to
21 answer that question now because we haven't yet
22 issued the decision in it.

23 I am the assigned Commissioner, so my
24 hope is that we can -- I know that comments, I
25 think, came in in the last couple of weeks,

1 another round of reply comments. And I'm going to
2 try and expedite this so that we have the answers
3 sooner rather than later.

4 COMMISSIONER GEESMAN: Well, we, I
5 believe, are a party in that proceeding. And
6 we'll certainly make the record that we developed
7 in our ruling available to you.

8 We did determine that we were going to
9 confine the Integrated Energy Policy Report to
10 publicly available data. So, I would hope that
11 ultimately you come to the same conclusion. But
12 obviously that's subject to your Commission's
13 discretion.

14 COMMISSIONER GRUENEICH: Well, as I
15 said, our main problem may be we have two
16 statutory standards. So I don't know that it's
17 our Commission's discretion. But that's one of
18 the things that we're going to be looking at, is
19 given the difference in the statutory standards on
20 confidentiality, what does that mean in terms of
21 then what are the confidentiality rules.

22 But I guess what I'm thinking is since
23 we -- listening to Commissioner Geesman now, we
24 know the answer to one of the issues you had
25 raised, Sean, which is that in the transmittal

1 report from the Energy Commission to the PUC, it
2 will not have the level of detail that at least I
3 think in the past when the arrangement was first
4 agreed to, to use the IEPR, to come over to the
5 PUC. There was, I believe, at least on our part,
6 an expectation of a level of detailed information.

7 And since we now know it won't have that
8 level of detailed information, what's the game
9 plan at --

10 COMMISSIONER GEESMAN: I didn't address
11 any level of detail. I addressed public versus
12 secret. I didn't say anything about level of
13 detail.

14 COMMISSIONER GRUENEICH: So the
15 transmittal report may include nonpublic
16 information?

17 COMMISSIONER GEESMAN: No, the
18 transmittal report will include only public
19 information.

20 COMMISSIONER GRUENEICH: Okay, and so
21 that won't include another level of detail that
22 the Public Utilities Commission may have
23 anticipated would be provided on a confidential
24 basis, and that the PUC may have been expecting it
25 would be using in its procurement process?

1 CHAIRPERSON DESMOND: Commissioner
2 Grueneich, --

3 COMMISSIONER GRUENEICH: And so my
4 question was, Sean, do you have an understanding,
5 is that level of detail something that we had
6 assumed the PUC would have available for the
7 procurement process? And if it's not coming from
8 the Energy Commission because it's not publicly
9 available, is there a plan of what we're going to
10 do?

11 CHAIRPERSON DESMOND: Mr. Gallagher,
12 before answering that question I'd like to provide
13 some clarification since we had nine hours of
14 hearings, and just to try and frame what the
15 questions were on the table, and I don't want to
16 confuse between level of detail and what's public
17 and what's not public. Because those are two
18 separate issues.

19 The issue at hand was an appeal of an
20 Executive Director's decision regarding the
21 release of information that the investor-owned
22 utilities, to one degree or another, had
23 considered to be a release of confidential data,
24 even in its aggregated form.

25 So, it has always been the Energy

1 Commission's intent to mask that data at an
2 aggregated level, and that's the question.

3 We fully expect that there will be an
4 appeal of that since we're engaged in ongoing
5 court proceedings that would prevent us from
6 releasing any information that is contested to be
7 confidential.

8 However, to Commissioner Geesman's
9 point, that the staff information in preparing the
10 IEPR relies upon public sources of information
11 that we believe provide sufficient level of detail
12 to provide the qualitative and quantitative
13 assessment necessary for the PUC to evaluate the
14 adequacy of the investor-owned utilities' plan.

15 So in that interim, really the question
16 is for the PUC review what is provided to the PUC,
17 and then while I said we believe that it provides
18 the sufficient detail to make that evaluation,
19 based on publicly released information, the
20 question then allows you to proceed with your own
21 confidentiality proceedings.

22 So we're not going to call that, or stop
23 that process from moving forward. So that's, I
24 want to draw that distinction between the two.

25 What you'll find is that the record

1 indicates many sources of information about that.
2 And I think that's what Commissioner Geesman is
3 pointing to, is when it comes time, being a party,
4 we'll provide that into the PUC for their
5 consideration.

6 But in the meantime it is our
7 expectation that the IEPR, as it's released, will
8 be of a sufficiently robust nature to allow you to
9 use that in your deliberations regarding the
10 assessment of the procurement.

11 COMMISSIONER GRUENEICH: Thank you, that
12 puts my mind at rest. What I would ask then is to
13 make sure that our PUC Staff is talking and
14 coordinating with the Energy Commission Staff so
15 that when the transmittal report comes over
16 there's a good shift over from the Energy
17 Commission to the PUC because we obviously want to
18 be able to get through our procurement decision
19 next year.

20 But from what you've said, Chairman
21 Desmond, that sounds like then we can work it out.

22 CHAIRPERSON DESMOND: Okay. The
23 objectives, obviously, I'll just repeat what I
24 said, paraphrasing the closing remarks at our last
25 business meeting when we upheld the Executive

1 Director's decision is that the IEPR, itself,
2 served the purpose of providing sufficient
3 information to allow for the appropriate signals
4 to be sent to the investment community that the
5 investments are needed in the State of California,
6 and to a degree where.

7 I would also point out that the Cal-
8 ISO's MRTU is designed to provide locational
9 marginal pricing information that would also give
10 us additional insight into that from the market.

11 And then the second is to make sure that
12 the PUC had adequate robust analysis that could
13 rely upon that record, rather than having to
14 revisit and hold a second series of hearings on
15 the same type of information.

16 MR. GALLAGHER: Commissioner, if I may
17 just respond to your question. We did anticipate,
18 when Commissioner Peevey's ruling was put out
19 earlier this year, a sufficient level of detail of
20 information being provided to us in the
21 transmittal report.

22 As you heard the Chairman say, the
23 Energy Commission believes it can provide that
24 level of detail with publicly available
25 information. We're just going to have to wait and

1 see and find out whether that's the case.

2 COMMISSIONER GRUENEICH: Well, I guess
3 I'm suggesting a little bit more than complete
4 wait and see. If there's an understanding of
5 right now of basically what public information
6 will be put in the report, then I'd like to ask
7 our staff to be thinking about now, is that going
8 to be sufficient information, as opposed to
9 waiting till November when you actually see the
10 report.

11 MR. GALLAGHER: And we can start doing
12 that.

13 CHAIRPERSON DESMOND: That report will
14 be out, the draft, this Friday.

15 COMMISSIONER GEESMAN: The draft IEPR
16 will be out on Thursday, but the transmittal
17 report which ties it all back to the record, won't
18 be out until sometime in early October.

19 CHAIRPERSON DESMOND: Okay. Further
20 questions on this particular issue or subject?

21 Other questions regarding the IEPR? We
22 want to take a moment and, at least I'd like to
23 acknowledge that it's somewhat historic, in the
24 sense that the Governor has now responded,
25 providing some direction here to the various

1 agencies. And just so that folks understand the
2 relationship between the Governor's response. As
3 the CEC has gone and prepares on a biennial basis
4 the Integrated Energy Policy Report, the Governor
5 obviously has gone through and provided response
6 to a large degree, endorsing and supporting the
7 recommendations. It should come as no surprise
8 since they flowed from the original Energy Action
9 Plan that has been incorporated, and sets a
10 foundation for establishing the loading order as a
11 guiding process for how we select resources.

12 That document is now back out. We have
13 been tasked with some specific items relative to
14 the 2005 IEPR. But within that we're looking
15 towards the Energy Action Plan-2 as an
16 implementation roadmap containing specific details
17 that we can focus on.

18 So I don't know if any of the other
19 members here would like to talk about that at all.

20 COMMISSIONER PFANNENSTIEL: Mr Chairman.

21 CHAIRPERSON DESMOND: Commissioner
22 Pfannenstiel.

23 COMMISSIONER PFANNENSTIEL: I would just
24 say that clearly from the moment we received the
25 Governor's response to the 2003 IEPR with the 2004

1 update, we've been bringing it into our own
2 planning horizon and thinking about both the
3 Energy Action Plan, which was sort of in front of
4 us in draft form when we received this, as well as
5 the future next year's Integrated Energy Policy
6 Report process. Trying to make sure that we are,
7 in both instances, bringing forward to action what
8 the Governor has told us.

9 So, I think we're probably going to talk
10 a little more about the Energy Action Plan-2, but
11 just to say that from our perspective, the most
12 important near-term or next step is to take the
13 Governor's response and build it into the Energy
14 Action Plan.

15 The Energy Action Plan is intended to be
16 the implementation document for the policy. The
17 policy is what the Governor's response to the IEPR
18 represents. Therefore, what we need to do is take
19 that and build it into some set of action items.
20 So that is how I've seen the connection between
21 the two.

22 CHAIRPERSON DESMOND: Just to note,
23 also, Commissioner Pfannenstiel, that adoption of
24 the EAP-2 is scheduled on our next Energy
25 Commission Business Meeting, and so we'll be

1 taking that up as we have discussed in the past.

2 So, unless there's any further comments.
3 Commissioner Grueneich.

4 COMMISSIONER GRUENEICH: Yes. Having
5 worked with Commissioner Pfannenstiel on Energy
6 Action Plan-2, I wanted to reiterate that we, at
7 the PUC, share the commitment to making sure that
8 there is a good flow between what I see are the
9 major documents on energy in this state, with the
10 IEPR from the Energy Commission, the Governor's
11 response to it and the Energy Action Plan.

12 And that we want, as much as possible,
13 to have the public seeing that these are documents
14 that are on the same page. And I think that's the
15 commitment we have, that we recognize that there's
16 sometimes a little bit of items that still have to
17 be worked out.

18 I know we're going to be talking a bit
19 later on the Energy Action Plan and how they
20 interrelate. But I think one of the good things
21 are that we are basically all in California on the
22 same page. There are obviously some deviations
23 about where we're going with energy policy.

24 So, I would say we did not see major
25 surprises with the Governor's comments on the

1 IEPR. And at least for myself I'm extremely
2 pleased that there is support from the Governor
3 reiterated for our loading order in California for
4 many of the policies and actions that we have
5 going forward.

6 There was one area that I just wanted to
7 ask a question on, and I was looking to see it.
8 And, in fact, it's not under the PUC's
9 jurisdiction but I'm just interested because I
10 think it's so key. That when I was reviewing this
11 over the weekend there was reference to the Energy
12 Commission coming out, and I think it was in March
13 of 2006, with a comprehensive transportation plan,
14 or an alternative fuels.

15 And in my mind that really would be a
16 key area to move ahead. As you know, we had
17 thought about putting in EAP-2, a section on
18 transportation, because of the comments received
19 and because we had heard from the Governor's
20 Office that the Governor was looking at setting
21 forth some policies, as well. We had decided, at
22 least in this go-round, of trying to get it
23 adopted this summer, early fall, not to put it in.

24 But I've been wondering if we could get
25 any feedback from the Energy Commission on where

1 they're going. Because I think that could be a
2 very interesting important area.

3 CHAIRPERSON DESMOND: Commissioner Boyd.

4 COMMISSIONER BOYD: Well, I was going to
5 highlight areas that hadn't been highlighted much,
6 but Commissioner Grueneich obviously highlighted
7 one of the areas that I spend a lot of time on.
8 And that is transportation fuels and petroleum.

9 And very pleased with the Governor's
10 response and the Governor's direction; and the
11 reiteration of the need to promote efforts in the
12 area of efficiency for vehicles, just like
13 efficiency in all other areas.

14 But, you're right, the key point was
15 calling upon the Commission to lead an effort to
16 develop a long-term plan by March 31st of '06,
17 that called for, quote, "significant reduction of
18 gasoline and diesel use." And another quote,
19 "increased use of alternative fuels."

20 And I think that's a message we've been
21 reading between the lines for quite some time.
22 But this is a very direct affirmation of the need
23 to address that issue. And I would note the
24 Governor's comments came back to us before Katrina
25 hit. And just reinforce the concerns we have

1 about our vulnerability in ceratin areas.

2 I would suggest, as a first review of
3 where, you know, we might be directing our efforts
4 with regard to a plan would be when the draft IEPR
5 comes out next week. I think that's a good
6 starting point.

7 And then once we get that IEPR out the
8 door, I think more of us will be able to turn
9 ourselves to the development of that plan. I know
10 Commissioner Pfannenstiel and I are the
11 Transportation Committee, and we've already had
12 some discussions about where we're going to go.

13 On the subject of the IEPR, though,
14 another area that doesn't get a lot of mention,
15 that we worry primarily about electricity and
16 transmission, I was pleased to note that in the
17 areas of natural gas and renewables the Governor's
18 response talked about biomass, biofuels multiple
19 times.

20 And the Governor did indicate his
21 support for the so-called Biomass Collaborative,
22 which is an organization that this Commission
23 created using its funds; headquartered at UC Davis
24 a few years ago.

25 And the Governor mentioned that he had

1 reinvigorated or restarted an interagency working
2 group on that subject of biofuels and biomass.
3 And, quite frankly, this is an area I want to make
4 sure that EAP-2 does at least reference enough
5 before this Commission approves it, because I
6 think that's a very significant area. And it
7 feeds into natural gas. It obviously fits in
8 renewables. And it's an obvious large component
9 of what we might do with transportation fuel. And
10 it's also a fuel to generate electricity. So it
11 cuts across all of it.

12 So, hopefully we'll see a little bit
13 more of that referenced in the EAP in the future.
14 But that's kind of a couple points I wanted to
15 make. Thanks.

16 CHAIRPERSON DESMOND: Commissioner
17 Pfannenstiel.

18 COMMISSIONER PFANNENSTIEL: I think just
19 in specific response to Commissioner Grueneich's
20 question about whether we're going to build
21 transportation back into the Energy Action Plan,
22 for all of the reasons that Commissioner Boyd just
23 articulated.

24 Yes, we are proposing that we bring it
25 back in. That we make sure that it, in fact,

1 reflects just what the Governor's IEPR response
2 tells us we should be doing.

3 I think probably the major purpose of
4 the Energy Action Plan is to signal to the public,
5 to the State of California, what our priorities
6 are; what our energy action priorities are.

7 And so I think it's really important
8 that we bring that in and highlight that.

9 CHAIRPERSON DESMOND: Commissioner
10 Grueneich.

11 COMMISSIONER GRUENEICH: Do you
12 anticipate that you'll be able to bring it back in
13 and still have the plan adopted at your next
14 business meeting?

15 CHAIRPERSON DESMOND: Yes.

16 COMMISSIONER GRUENEICH: Okay. The
17 other area that I guess I wanted to highlight with
18 the Governor's comments that I was very pleased
19 of, was pointing out the need for energy
20 development and demonstration, RD&D. That this is
21 an area that I have felt very strongly there needs
22 to be sufficient investment in California in.

23 And I guess the good news is we sort of
24 anticipated that by putting in a section in the
25 Energy Action Plan-2. And Commissioner Desmond

1 and I had a brief discussion about this a couple
2 of weeks ago that I think that we can all improve
3 a bit by looking at where the state's R&D money is
4 being spent on R&D. And probably being a little
5 bit better coordinated among the agencies.

6 Just in my brief tenure at the PUC I
7 found out sort of happenstance, sometimes, that
8 there's some PIER money or other programs going
9 on. And I think what at least my commitment is,
10 is that if there is funding available through PIER
11 that's being used to help the PUC then in its
12 programs and activities, that I would like to make
13 sure that we're aware of it, and giving the best
14 information we can so that the end product that
15 comes out in terms of a report or analysis or
16 whatever is really something then, we, as an
17 agency, will take and work with.

18 And I've also had the opportunity to
19 speak with Yakout Mansour, the CEO of the ISO, and
20 he shares that same commitment, as well.

21 So, I think going forward, if we can
22 look at the area specifically of RD&D, and the
23 funding sources that are available and trying to
24 make sure that there is good integration with the
25 PUC, the ISO and the Energy Commission, that that

1 will help make sure that those funds are most
2 effectively spent.

3 CHAIRPERSON DESMOND: Great. Excellent
4 comments, Commissioner Grueneich. I would add a
5 couple points to that. Number one is the PUC does
6 have the opportunity and does work with the
7 Commission in reviewing the gas research plan.
8 And so that's an ongoing process.

9 Secondly, the Governor also calls upon
10 us to work closely with the EPA and the Air
11 Resources, and specifically expands these areas to
12 incorporate the transportation-related issues, in
13 addition to electricity and natural gas. And so
14 we want to do that.

15 I'm going to suggest that we add another
16 item to our next meeting's agenda, in addition to
17 the quick update from the reliability standards,
18 and that would be a presentation from the PIER
19 group just on sort of overall program status and
20 review, to give folks a better sense of what it is
21 we're focused on.

22 But the general message from the
23 Governor was, in fact, that research ought to
24 support the policy objectives. And so I think
25 that's a good opportunity to do that, and a lot of

1 great information there.

2 COMMISSIONER BOYD: Mr. Chair.

3 CHAIRPERSON DESMOND: Yes, Commissioner
4 Boyd.

5 COMMISSIONER BOYD: Again, playing off
6 my friend, Commissioner Grueneich there, I just
7 wanted to -- and you made some of the points I
8 would have made. I think we've had pretty
9 extensive interaction with the PUC in the
10 electricity area. The natural gas area is new,
11 and we've worked that out quite well.

12 But I just wanted to take this
13 opportunity to get on my soapbox about the fact
14 that there are three legs to the energy stool,
15 transportation fuel, electricity and natural gas.
16 And one of them, transportation fuel, still lacks
17 any funding source for activities.

18 We have public goods charges that
19 support, in effect, natural gas and electricity.
20 We have no such analog or similar source of
21 funding for transportation activities,
22 transportation R&D, in this area of efficiency and
23 diversified portfolio of fuels and so on and so
24 forth, that we worry so much about in the
25 electricity area.

1 And I think in addressing a long-term
2 plan, to me, one of the areas we've got to address
3 is finding an adequate funding source, a public
4 goods charge of sorts for these types of R&D
5 efforts and other efficiency efforts, conservation
6 efforts and public education, and better
7 coordination between the state transportation
8 planners, the local land use planners and the
9 local transportation planners in carrying out
10 activities that could fuel efficiency
11 conservation, the lack of needing to move people
12 around in single-occupant vehicles, and what-have-
13 you.

14 But we do have a very serious funding
15 deficiency in this area that in the future we need
16 to address.

17 CHAIRPERSON DESMOND: Thank you for
18 highlighting that. Commissioner Rosenfeld.

19 COMMISSIONER ROSENFELD: I just want to
20 go along with Jim Boyd. We've had this
21 conversation many times and I guess everybody here
22 has.

23 PIER is, of course, happy to help with
24 the transportation issue insofar as it can. But
25 the money comes from electric and gas ratepayers,

1 and we're supposed to do things that will somehow
2 or other help them, broadly interpreted.

3 But it's stupid that in this great
4 state we don't have the equivalent, which would be
5 a -- if you wanted a program comparable with PIER
6 you would need, I don't know, a quarter of a cent
7 gasoline tax or something like that.

8 PIER gets away with being a small amount
9 of the electricity tax, and people seem to be
10 happy with it. And Jim Boyd's quite right, we
11 just need to wake up to the same problem for
12 transportation.

13 CHAIRPERSON DESMOND: Thank you. I'll
14 assume that some of that will make its way into
15 recommendations in your March report.

16 Just to highlight two other items that I
17 think are somewhat new with respect to the
18 Governor's response to the IEPR.

19 The first is the emphasis on moving
20 towards risk-based and dynamic simulation
21 methodologies, as opposed to the deterministic
22 and more of that probabilistic assessment so we can
23 gauge. It's not normal or adverse, but the answer
24 is always somewhere in the middle.

25 And so assessing our capabilities to

1 respond to those conditions will be something that
2 will make its way through what the Commission here
3 does, and its programs.

4 And then regarding fuel diversification,
5 I think that issue was brought home particularly
6 last week with the aftermath of Hurricane Katrina
7 and the need to diversify away from a continuing
8 reliance on natural gas.

9 And in that sense the Governor has asked
10 us to begin proposing very specific policy
11 recommendations on clean coal technologies that
12 are also consistent with his climate action
13 goals. And so that will be making its way
14 through for comment and response here.

15 So, I think he's recognized what those
16 matters are.

17 Unless there's any further we'll then
18 move on. We still have almost 20 minutes here, at
19 least, before noon time to talk about the 2005
20 Energy Action Plan-2. And I think we probably
21 addressed some of those.

22 COMMISSIONER GEESMAN: Mr. Chairman.

23 CHAIRPERSON DESMOND: Commissioner
24 Geesman.

25 COMMISSIONER GEESMAN: Dian, the draft

1 of the Energy Action Plan which the PUC adopted
2 last month seems at variance with the Governor's
3 desire to move transmission siting to the Energy
4 Commission, as expressed in his response to the
5 IEPR.

6 How do you envision reconciling that?

7 COMMISSIONER GRUENEICH: As I think the
8 public knows, the PUC and the Energy Commission,
9 working through our joint steering committee, had
10 a sign-off on the Energy Action Plan to draft in
11 the language that was adopted by the Public
12 Utilities Commission.

13 And that we've noted out of the 83
14 action items there was one area of disagreement
15 what, while there is agreement among the entities
16 that we should be streamlining the transmission
17 planning, siting, permitting and approval process,
18 the position that was reflected in the draft that
19 the PUC adopted, and that had been reviewed by the
20 Governor's Office, said that it could be done
21 through a variety of ways. And did not mandate it
22 be done solely through a statutory change.

23 And this is where we felt that the
24 likelihood, it is not at all certain that there
25 will be legislation passed in the next year. And

1 that it was better for it to actually move ahead
2 on getting transmission planning fixed.

3 So, John, after the PUC's meeting I met
4 with Yakout Monsour, the CEO of the ISO, as well
5 as with Joe Desmond, the Chairman of your
6 Commission, and we have outlined an approach to
7 transmission planning and permitting that at least
8 preliminarily we think could work.

9 We are committed to meeting again this
10 week, and moving ahead quickly. And our plan,
11 John, is that if we are able to resolve these
12 issues and avoid, frankly, what could be a lengthy
13 and disruptive legislative fight, while still
14 meeting the joint goals of streamlining the
15 transmission process, that this is certainly a
16 more attractive prospect.

17 COMMISSIONER GEESMAN: Well, I'm all in
18 favor of streamlining, as you know. I'm looking
19 at the Governor's response to the IEPR that says:
20 "That is a major reason why my reorganization plan
21 proposes that the Energy Commission add the
22 licensing responsibility for all bulk electricity
23 transmission facilities to its well-respected
24 licensing responsibility for generation
25 resources."

1 I suspect Mike put that well-respected
2 phrase in there.

3 The Governor has articulated his desire
4 to make this particular move. Should it not be in
5 the Energy Action Plan?

6 COMMISSIONER KENNEDY: Could I respond
7 to that?

8 CHAIRPERSON DESMOND: Please,
9 Commissioner.

10 COMMISSIONER KENNEDY: I would argue
11 that it should not be in the Energy Action Plan.
12 Until the -- unless we're going to turn the Energy
13 Action Plan over into a document that is some kind
14 of a joint analysis of the entire reorganization
15 plan, the purpose of the Energy Action Plan is to
16 make sure that under the rules, and whatever we're
17 operating under, that we are not letting one thing
18 slip between our agencies with regard to making
19 sure that we have the energy resources that we
20 need.

21 If and when that changes, we reflect
22 that. But we should -- right now we've got
23 transmission challenges in front of us that our
24 agencies have to be coordinating on. And I've
25 never been one to be shy about my views on where

1 transmission should be sited.

2 But I think we're tripping over putting
3 something that's really -- something we're not
4 going to agree on in an inappropriate document.
5 When that conversation should be taking place
6 someplace else.

7 COMMISSIONER PFANNENSTIEL: Mr.
8 Chairman. I guess I believe that we're really
9 talking a couple of different aspects on
10 transmission. Partly it's sort of getting the
11 wash out, what can we do in a process standpoint
12 to just get out, to move it along. I mean we have
13 a lot of problems and there's a lot of history of
14 problems with transmission siting that we just
15 have to fix.

16 And I believe that some of the
17 discussions that are going on are intended to do
18 that. And I think ultimately will help the
19 process.

20 But then I think that there's a longer
21 term question here of where do you get -- where
22 does the State of California get the best bang for
23 its buck in terms of transmission siting. And the
24 Governor has said in two places, both in the reorg
25 proposal, but I think more explicitly and more

1 directly, from our standpoint, in the IEPR
2 response. He said he thinks that should be at the
3 Energy Commission.

4 So, really, the question is the form,
5 not the substance. I think that the substance is
6 that that's where it should go.

7 Now what we're sort of trying to deal
8 with is do you put it in the Energy Action Plan;
9 do you not put it in the Energy Action Plan. Do
10 you vaguely hint at it in the Energy Action Plan,
11 but sort of ultimately just sort of try to get a
12 document out the door that is a compromise
13 document, in that sense.

14 I don't think that the Energy Action
15 Plan, I agree with Susan, is, in fact, the place
16 to flesh out a lot of controversies. In fact, I
17 think it should be the opposite. It should define
18 where we have reached points of agreement.

19 However, this is one where I think that
20 there really isn't a lot of controversy about what
21 ultimately should happen. And I think we're
22 really more in the state of just saying it, just
23 saying, all right, this is what we need to be
24 doing; we need to be working towards a process
25 that will move transmission to the Energy

1 Commission. And at the same time work on the
2 process changes that we've been talking about
3 doing.

4 CHAIRPERSON DESMOND: President Peevey.

5 PRESIDENT PEEVEY: It seems to me, you
6 know, I don't -- it's tough sometimes not to get a
7 little personal in this. I mean I -- this
8 constant desire to fish in troubled waters seems
9 to me to be very counterproductive. I just don't
10 understand the fascination with it, and the
11 constant trying to stick it to somebody here.

12 The fact of the matter is we created an
13 Energy Action Plan two years, two and a half years
14 ago, in a policy vacuum in the State of
15 California. That plan was endorsed by this
16 Governor, not just by the previous Governor, by
17 this Governor.

18 We're now at the stage of EAP-2. We
19 have one area where we're not in total agreement.
20 As Dian pointed out, there's 83 different action
21 items. We're going to let one item be the
22 determinate of the whole thing? That's absolutely
23 ridiculous on its surface.

24 Last week Joe Desmond, myself, others
25 met and talked with the Governor about this very

1 subject, and we committed ourselves, he and I, to
2 further working in this area. So I see no reason
3 to keep going back over this thing, and to just to
4 kind of, it seems to me, to foul up the whole
5 mechanism.

6 We're on to a very good thing here.
7 This is, as Sean Gallagher pointed out in his
8 slides, the tradition in the past was fisticuffs.
9 Now we have cooperation. And I don't want to see
10 that go down the tube over one issue out of 83.
11 It doesn't make any sense.

12 When we adopted EAP-2 at the PUC last
13 month we put in a footnote saying the CEC has a
14 different perspective on this matter. You could
15 adopt your thing next week saying that. Or change
16 it some other way, fine.

17 I just think we have to recognize that,
18 as I've said in other contexts, the donut is a
19 hell of a lot bigger than the hole, and we ought
20 to get on here, rather than let one tiny item
21 screw up the whole damn mess.

22 And there's just this constant desire to
23 fish in these waters here, and be meddlesome in a
24 way that is not constructive, not helpful, not
25 positive at all, to the kind of cooperation that

1 Joe Desmond and myself articulated to the Governor
2 last week. And we both made a commitment to
3 continue to work together to try to resolve this.

4 And I don't think that the constant
5 airing of this in public forums like this are at
6 all productive; they're counter-productive. And I
7 resent it deeply.

8 CHAIRPERSON DESMOND: Let me add a few
9 closing remarks then.

10 (Laughter.)

11 CHAIRPERSON DESMOND: I don't want to
12 diminish from either Commissioner Geesman's
13 emphasis on the need to address the transmission
14 issue; we have to improve the way we do that in
15 the State of California.

16 Nor do I want to take away from the
17 concerns expressed by President Peevey regarding
18 the need for continued cooperation.

19 So I have to sit here and say that we
20 certainly support both, meaning we need to get to
21 the bottom. And the citizens of the State of
22 California expect us, as policymakers, to find a
23 way through this process.

24 The other thing I would simply add to
25 this discussion is that we have to have the ISO

1 present here to talk about this issue, simply
2 because they are tasked with managing grid
3 reliability for a large portion of the State of
4 California. And I would also add that the
5 municipal community, as well, relative to the
6 issues around reliability and FERC's role, also
7 have to be part of that conversation.

8 So, it's not just two agencies. It's
9 many agencies. And despite the differences that
10 we may have, we will, in fact, strive to find a
11 way through this; and, in fact, come up with a
12 program that addresses the needs and identifies
13 ways to improve upon those, including things like
14 transmission corridor planning.

15 We have to do that. I don't think we
16 have a whole lot of choice. So, unless anyone
17 else wishes to add to that, we are still scheduled
18 to take up the EAP-2 at our next business meeting,
19 as I indicated. And as has been pressed upon us
20 to continue to get that done.

21 So, is there anything anyone wants to
22 add then on Energy Action Plan-2? No. All right,
23 we'll close that discussion out.

24 We have an opportunity here right now --
25 to be honest, I don't know that the agenda

1 warrants taking an hour's lunch break. I think if
2 we can, we could probably push through for another
3 45 minutes and get this done and be on our way, if
4 that makes -- if people are amenable to that. Or
5 if they feel the need to take a quick break here
6 and get something to eat? Keep going? Very good,
7 okay.

8 Then the next item on the agenda is
9 lunch. We've just noted we're going to bypass
10 that lunch.

11 (Laughter.)

12 COMMISSIONER GRUENEICH: It's not even
13 on our agenda.

14 CHAIRPERSON DESMOND: This is the secret
15 agenda, Dian. The secret agenda.

16 The Integrated Energy Policy Report and
17 CPUC's Procurement Proceeding. We've had that
18 timeline in discussion, but is there anything else
19 we wish to add then? Commissioner Geesman, I have
20 you noted here on that, as well.

21 COMMISSIONER GEESMAN: No, actually I
22 wanted to talk about the TransBay Cable project
23 and the process by which the agencies and the ISO
24 interact on that type of activity.

25 CHAIRPERSON DESMOND: Okay. I'll add

1 that then to the list of items under the other
2 current energy events when we get to that here in
3 a moment.

4 Commissioner.

5 COMMISSIONER GRUENEICH: Are we
6 talking -- I did have one item on the IEPR and --

7 CHAIRPERSON DESMOND: Please go ahead.

8 COMMISSIONER GRUENEICH: -- go ahead. I
9 should -- I also wanted to make note that as I
10 mentioned a moment ago that Yakout Mansour and
11 Commissioner Desmond and myself had a fairly
12 extensive discussion about transmission planning,
13 permitting, corridor planning to try to work out
14 this issue.

15 And Mr. Mansour from the ISO was there
16 precisely because we do see the need for the ISO
17 to be involved in part of both the discussion and
18 the solution.

19 And many of you may have noted that the
20 ISO has announced its new proactive transmission
21 planning process in which it is seeking input from
22 a variety of sources, and then will be issuing a
23 plan that will identify transmission needs for the
24 state. And then soliciting on some sort of, I
25 think, a competitive basis alternatives, both

1 generation and nongeneration transmission, to the
2 identified transmission needs.

3 So what I wanted to point out
4 specifically with regard to the IEPR and the PUC's
5 procurement proceeding is that one of the areas
6 that we are discussing is how we can make sure
7 that there is a good integration between what the
8 Energy Commission is doing here in terms of its
9 IEPR and what the ISO is now doing in terms of its
10 transmission planning and transmission expansion
11 plan. And then how that feeds into the PUC
12 procurement process.

13 Because at least from the PUC's
14 perspective what I want to avoid is essentially we
15 have two statewide transmission plans. And I was
16 very pleased in the discussion with Mr. Desmond
17 and with the ISO. I think that we're going to be
18 able to avoid that. Actually, I know we have a
19 commitment that we're going to avoid that.

20 But I wanted just to make a note that we
21 are also working with the ISO in how their
22 planning processes and their information gathering
23 is going to fit into the PUC's procurement
24 activity next year.

25 CHAIRPERSON DESMOND: Thank you.

1 Commissioner Geesman, did you want to address the
2 strategic --

3 COMMISSIONER GEESMAN: Yeah.

4 CHAIRPERSON DESMOND: -- transmission --

5 COMMISSIONER: Well, how, in your
6 discussions, did the TransBay project come up?
7 Because it seems to me that a day after your
8 meeting your Commission sent a letter to the ISO
9 Board asking them to delay consideration of the
10 TransBay project.

11 I don't believe that our Commission was
12 involved in that. and then the day after the
13 letter the ISO Board unanimously moved forward
14 with the TransBay project and basically told PG&E
15 not to come in at the 11th hour and attempt to
16 block an important infrastructure project.

17 So, I'm all in favor of closer
18 coordination and streamlining; but it seems just
19 last week we had a rather vivid example to the
20 contrary.

21 COMMISSIONER GRUENEICH: The discussions
22 that we have, the product that we're looking
23 forward to will be a document that will be issued
24 by all three agencies that do set out what will be
25 the process and what will be the responsibilities.

1 So, John, because we haven't yet gotten
2 to that document where there has been any input
3 from the public and agreement, we certainly
4 weren't, in private, making any sort of agreements
5 about how a specific project would be handled.

6 COMMISSIONER KENNEDY: We need to
7 clarify, though, that the letter was not from the
8 Commission.

9 COMMISSIONER GEESMAN: I've got it right
10 here. It's from the Commission.

11 PRESIDENT PEEVEY: It was from the
12 President. Yeah. He's right. But, in any case,
13 look. I'm not quite sure what the issue is here.
14 There's no question that I wrote the ISO a letter
15 saying that I would like to urge them to take a
16 delay of up to 90 days to look at the cost
17 ramifications of an alternative to the TransBay
18 underwater cable via Moraga and then ultimately
19 under the Bay, too.

20 It seems to me it was a reasonable
21 request. It was 11th hour, there's no question
22 about it. There was a question about whether I
23 had my own reservations about sending it, but I do
24 think, if we're talking about something that is
25 reputed to be cheaper, an alternative, by as much

1 as \$100 million, \$75- to \$100 million, if that
2 ought to be considered.

3 And 90 days maximum is not, to me, a
4 great amount of time. It was under that premise
5 that I wrote it. I agree PG&E came in late, very
6 late into the process, and also had been through
7 bankruptcy. They should have been in the
8 transmission planning business some time earlier.
9 They now have a vice president of planning and
10 all.

11 But I make no apology for sending a
12 letter on behalf of ratepayers of California.
13 That's our principal responsibility at the PUC is
14 to try to get all these things done at the lowest
15 possible cost. Not at the highest possible cost.
16 Whether it's redundancy planning or transmission
17 planning.

18 It was in that context that that letter
19 was sent. The ISO, as is their right, chose to
20 ignore it. I regret that. I wish we'd had time
21 to talk about it several weeks earlier. It didn't
22 come to my attention. It speaks for itself.

23 COMMISSIONER BROWN: Could I just
24 amplify on that. To what extent were any of the
25 other agencies involved in the planning for this

1 particular project? I mean, are we just going to
2 approve projects huckleety-buck because somebody
3 proposes them?

4 If there's a cheaper way to do this and
5 more efficient way to do this, since these are
6 (inaudible), I think that a 90-day or a 60-day
7 delay is hardly critical.

8 COMMISSIONER GEESMAN: Well, the draft
9 strategic plan that has been distributed to you, I
10 believe, declined to take a position on the
11 project until the ISO had completed its
12 consideration.

13 This TransBay project came up in June at
14 our last meeting. And at the time it sounded an
15 awful lot like Path 15 in terms of the way in
16 which it was being addressed by the PUC. And I
17 have to say that today's discussion reinforces
18 that.

19 PRESIDENT PEEVEY: That's an absurdity.
20 It's not addressed by the PUC. It was approved by
21 FERC with a 13.5 percent rate of return.

22 COMMISSIONER GEESMAN: After you
23 attempted to block it.

24 PRESIDENT PEEVEY: Nobody attempted --
25 oh, --

1 (Parties speaking simultaneously.)

2 COMMISSIONER KENNEDY: Commissioner

3 Geesman, --

4 CHAIRPERSON DESMOND: You know, what?

5 PRESIDENT PEEVEY: Are we just going to

6 continue this kind of --

7 CHAIRPERSON DESMOND: I just have a

8 question here --

9 PRESIDENT PEEVEY: -- it's just not

10 productive and I'm just not interested in having

11 this dialogue.

12 COMMISSIONER BROWN: I mean, the point,

13 John, is that an individual Commissioner, and I

14 support what he did, took it upon himself to ask

15 for a delay so that the ISO could consider an

16 alternative. Is that so bad? Or do we just

17 rubber-stamp any proposal that happens to come in?

18 CHAIRPERSON DESMOND: I'd just like to

19 then pose the question, if I can, to the Cal-ISO

20 Board Member who is present, who actually voted on

21 that decision, if you did or did not have any

22 comments?

23 (Laughter.)

24 PRESIDENT PEEVEY: Welcome to the

25 meeting.

1 CHAIRPERSON DESMOND: Yes.

2 BOARD MEMBER LOWE: Thank you. Well, I
3 think my comments were very clear at the Board
4 meeting. There's a process for going through, and
5 Robin can certainly comment on this, as well, but
6 there is a process that has been going on for
7 months on this. I mean, it's an 18-month process.

8 There's a lot of money that's been
9 spent. And my specific comments on this, when the
10 90 days were requested, is what's going to be in
11 front of the Board 90 days from now. How many
12 more alternative proposals are going to be there
13 90 days from now.

14 And at some point we need to start
15 building something or we're affecting the
16 reliability of the State of California.

17 So all of these alternatives are
18 considered through the entire process. And so for
19 this 18-month period or two-year period,
20 alternatives to the proposal that were on the
21 table were considered. They were evaluated based
22 on economics; they were evaluated based on
23 reliability; and, you know, all of those were
24 considered in the proposal that was brought to the
25 Board, which, frankly, was supposed to be brought

1 to the ISO Board in July. So it was already -- it
2 had already been delayed a few months past that.

3 So I want to make it clear that this is
4 not a rubber-stamp. I am not a rubber-stamp Board
5 Member, as a lot of people will agree --

6 COMMISSIONER BROWN: No, I'm not
7 suggesting. But what I'm suggesting when I use
8 the term a rubber-stamp, what I meant by that is
9 do we have no comment whatsoever? Are we just
10 disallowed? Are we to be silenced? If there is
11 the possibility that might be considered.

12 BOARD MEMBER LOWE: Again, there's a
13 process. Everybody is welcome to come to the
14 table during that process. It's a stakeholder
15 process where everyone is invited to that table.

16 So, my concern is clearly, if folks are
17 going to come to the table at the last minute, I
18 mean not only PG&E came to the table at the last
19 minute, but another transmission came to the table
20 at the last minute, so how many more are going to
21 be there in 90 days.

22 At some point we need to move forward
23 based on the information that we've been
24 evaluating for 18 months, and get some projects
25 underway.

1 PRESIDENT PEEVEY: Look, as far as I'm
2 concerned, I mean we made -- I made it clear; you
3 made your call; that's it. We're going ahead with
4 it.

5 That's just the way it is. I regret
6 that it was at the last minute. I'm not being
7 critical of the ISO Board for deciding what it
8 did.

9 At the PUC we have a different
10 responsibility than you do, in part. We all want
11 to keep the lights on in California. But we also
12 have to be mindful of costs here.

13 And there's also a need question Mr.
14 Geesman conveniently overlooks. We're talking
15 about we don't need this project for years and
16 years, as a matter of fact. We've approved
17 Jefferson-Martin upgrade. All that's going
18 forward.

19 So, it's 2009, 2011, 2012, sometime in
20 those several out-years do we need this project.
21 And it was in that context that asking for up to
22 90 days delay seemed to me a reasonable thing.

23 But, you've made your judgment, and
24 we're going on from there. I don't see any point
25 in just belaboring this repeatedly and trying to

1 stick, you know, poke someone in the eye about it.

2 I will say, however, that, you know, as
3 the President of a Commission whose job is to
4 protect California consumers, that when you look
5 at potential costs here, that potentially the
6 costs of this project exceed the costs of
7 alternative projects, and particularly the ones
8 that would have been sponsored by the local
9 utility, by a considerable amount of money.

10 And someone has to pay due regard and
11 respect to the need of ratepayers. It's not just
12 build transmission at any cost, I would hope is
13 not the policy of the State of California at any
14 time.

15 BOARD MEMBER LOWE: No. And it's not.
16 And there are other costs that need to be
17 considered, too. Congestion costs that this is
18 relieving; environmental benefits of this lines,
19 things like that.

20 Just, you know, comment on poking in the
21 eye. It would be great if we weren't poking -- I
22 mean I don't want to get back to what we saw on
23 the screen of, you know, fighting among agencies.
24 And I'm hearing a lot of poking in the eye.
25 You've commented that your letter was ignored. It

1 is my responsibility, particularly as on this
2 Board, to consider all stakeholder comments. And
3 so it was not ignored. It was received; we
4 considered it as we considered all other
5 stakeholder comments in the process.

6 So, I think it would be great if we
7 could move on in the spirit of cooperation, and
8 trust each other's decisions in the process.

9 COMMISSIONER BROWN: The only thing I
10 would say, the fact that you bring a particular
11 suggestion to a agency does not necessarily show a
12 lack of cooperation, or a lack of deference. It's
13 the expression of an opinion, in this case, by the
14 President.

15 BOARD MEMBER LOWE: Absolutely. I
16 agree.

17 CHAIRPERSON DESMOND: Thank you. Okay.
18 Just to, again, unless there are any further
19 comments on this particular subject, to clarify a
20 process for the three agencies, agencies - I'm
21 including the Cal-ISO -- as we move forward here,
22 is first to get our arms around the issues.

23 Clearly there are differences in
24 perspective regarding the obligations and roles of
25 those different agencies. We also have to

1 consider the implications not only of existing
2 legislation, but what's likely to be signed,
3 perhaps by Governor Schwarzenegger in the coming
4 month. As well as some of the recent legislative
5 changes put forth with the Energy Policy Act.

6 And so from that perspective it is that
7 the ISO, the CEC and the PUC will continue to try
8 and get towards first a common understanding of
9 where we think the problems are before moving
10 forward with what we think is a common set of
11 recommendations. But I appreciate you taking the
12 time here to make those comments here today, Board
13 Member Lowenthal -- Lowe, excuse me.

14 Okay, unless there's anything else to
15 speak about on transmission issues here we'll move
16 through. And by the way, my view is that this is
17 a healthy discussion, because it helps to focus us
18 on where we need to spend a little more time.

19 Other energy current events.
20 Commissioner Geesman, you had asked -- we've
21 covered the TransBay Cable. Do we want to speak
22 now to Southern California Edison's solar program
23 on the PUC? Is that -- I have a list of suggested
24 topics. We're going to get to the public comments
25 here in a moment.

1 Monday morning calls that have been
2 being coordinated. Folks want to touch on that
3 briefly?

4 SECRETARY McPEAK: They're essential.

5 CHAIRPERSON DESMOND: Let me just tell
6 folks what goes on. Every Monday morning the Cal-
7 ISO, the CEC and the PUC Staff are on a conference
8 call. Those calls include a review of the
9 information that's being provided by the investor-
10 owned utilities for the coming week. It includes
11 a forecast and schedules. We also review the
12 accuracy of the scheduling compared to the
13 original forecast from the week prior.

14 We have found, in fact, that this
15 information has led to far greater accuracy in
16 moving forward, notwithstanding the inability to
17 forecast sudden changes in temperature due to
18 Santa Ana winds. And I think Army Perez said
19 Santana -- correcting that. But I think we know.
20 We know.

21 Those calls continue and they will
22 continue here through the completion of the summer
23 session, and again are incorporated into that.
24 So, that has been a very productive exercise.

25 Likewise, Commissioner Rosenfeld, do you

1 want to touch briefly on your recent trip to China
2 MOU? And Susan's, Commissioner Kennedy. Who
3 wants to --

4 COMMISSIONER ROSENFELD: As the Chair of
5 our Delegation, Susan, why don't you talk about
6 the MOU for a minute.

7 COMMISSIONER KENNEDY: We had a
8 delegation that included myself and Commissioner
9 Rosenfeld and members of the Natural Resources
10 Defense Council and other members of the China/US
11 Energy Efficiency Alliance, which has been in
12 place for about a little over a year now, to
13 develop cooperative efforts between the Chinese
14 government and certain provinces and agencies with
15 California, with regard to demand side management.

16 The Chinese have been looking at demand
17 side management for a very long time. And have
18 not been able to -- not yet made the leap into
19 actually implementing a demand side management
20 program on a national basis. And they seem poised
21 to actually make some great strides in that regard
22 at the moment.

23 Last year they invited me to come over
24 and talk about how California used demand side
25 management during the energy crisis to alleviate

1 blackouts, and the need for actually shedding
2 load. So they were very very interested in how we
3 used demand side management.

4 This time they were very very interested
5 in exactly how we instituted the public assistance
6 benefits charge; how we delinked sales of
7 electricity from profits of the company in order
8 to eliminate the conflict, the inherent conflict
9 with energy efficiency programs and the needs of
10 the utilities.

11 So, there were very very specific
12 questions about how to implement demand side
13 management programs. And just to give you a sense
14 of why this is so important for California, or how
15 it's so important, if China were to institute a
16 similar public benefits charge as we have in
17 California, which is 1 percent of the revenue, it
18 would immediately produce spending of \$1 billion
19 for demand side management in China.

20 California has a preponderance of energy
21 efficiency technology companies and renewable
22 energy technology companies that could provide a
23 lot of help to China and benefit our companies
24 greatly. So there's a tremendous amount of
25 cooperative efforts that could benefit both

1 California and China and the environment if we are
2 to succeed.

3 They've actually asked us to help them
4 draft a national decree. Wish we could just have
5 decrees.

6 (Laughter.)

7 COMMISSIONER KENNEDY: And I want to
8 note that their utilities salute their officials
9 as they walk in the door.

10 (Laughter.)

11 COMMISSIONER KENNEDY: Okay. Dressed
12 up, hats on, saluting as we walked in the door.

13 COMMISSIONER ROSENFELD: Susan and I
14 were charmed at the words decree and Shanghai
15 talked about modifying its eleventh five-year
16 plan. And we were wowed, right?

17 COMMISSIONER KENNEDY: Right. That they
18 were on their eleventh five-year plan.

19 But anyway it was a really productive
20 trip. Not only are we helping with the draft
21 language for a national decree, but the JiangSu
22 Province is asking for help, as is Shanghai. And
23 how they can meet their President's demand that
24 demand side management be elevated and implemented
25 in China.

1 And so they're all looking to us to help
2 them in ways that they haven't done before. So,
3 there's a tremendous opportunity here. I was very
4 proud to serve with --

5 COMMISSIONER ROSENFELD: I do want to
6 make one remark. We talked about our public goods
7 funds, and all the good efficiency things they've
8 done and so on. And they said, well, we haven't
9 had a blackout in JiangSu Province since 1949.
10 And we have 8000 megawatts of demand response.

11 And Susan and I asked, well, how do you
12 do that. And they said, well, our short-range
13 plan is we call up industry the night before and
14 we tell them to turn off. And our long-range plan
15 is we call them up the summer before and we tell
16 them to move to nights and weekends.

17 COMMISSIONER KENNEDY: Right. So that
18 was how they made the statement that they don't
19 have any blackouts.

20 (Laughter.)

21 COMMISSIONER BROWN: They have
22 blackouts, though. I've been in Sian, which is in
23 central, and you'll be sitting in a restaurant and
24 the lights will just go off.

25 UNIDENTIFIED SPEAKER: It happens in San

1 Francisco, too.

2 (Parties speaking simultaneously.)

3 COMMISSIONER GRUENEICH: Reminds me of
4 this morning.

5 CHAIRPERSON DESMOND: Thank you for that
6 report. Anything else?

7 COMMISSIONER ROSENFELD: No. I want to
8 give you another number, though. They are now,
9 the Chinese are now up to two-thirds as much
10 generation as the United States. They're growing
11 10 percent a year; we're growing 1.5 percent a
12 year. They will come equal in generation to us in
13 eight and a half years.

14 It's coal-fired generation. It's pretty
15 dirty. It's mainly coal-fired, of course they're
16 going to do 1700 megawatts of hydro. And if you
17 believe global warming is a problem, I think
18 trying to help them get the idea about decoupling
19 and the huge benefit/cost relationships for DSM
20 was very satisfying.

21 CHAIRPERSON DESMOND: Thank you.

22 COMMISSIONER BROWN: Art, did you see
23 any of the clean coal plants that they had?

24 COMMISSIONER ROSENFELD: No, we were
25 talking demand side all the time.

1 CHAIRPERSON DESMOND: In fact,
2 Commissioner Brown, I'd just also point out, I
3 know the federal government, Department of Energy,
4 is doing some recent modeling work on the clean
5 coal technologies with the government of China, as
6 well.

7 And they also recently signed a long-
8 term agreement or an accord, I believe, with
9 Australia regarding importing natural gas to
10 diversify, and look at some of the new fuel
11 sources.

12 So, unless there's any other comments?
13 Secretary McPeak.

14 SECRETARY McPEAK: Actually, a number of
15 the Cabinet Members are scheduled to join the
16 Governor in going to China in November. And it
17 would be helpful, actually, for us to have as much
18 of a status report on your visit as possible. And
19 where you might be in drafting the decree.

20 Or the kind of reinforcement and talking
21 points messages that we should be communicating in
22 our conversations to best follow up on your visit.

23 CHAIRPERSON DESMOND: Thank you. We'll
24 prepare that for you. I'd also note before we
25 move into the public comment that following

1 Secretary Chrisman's return from his Asia trip a
2 year ago, he had also suggested that staff salute
3 him.

4 (Laughter.)

5 CHAIRPERSON DESMOND: So, --

6 SECRETARY CHRISMAN: And let it be noted
7 that they turned it down.

8 CHAIRPERSON DESMOND: Yes, President
9 Peevey.

10 PRESIDENT PEEVEY: If we're about to
11 ready to go to public comments just a couple of
12 other energy, current energy events and topics of
13 joint interest.

14 Last Thursday the PUC unanimously
15 announced its opposition to Proposition 80, which
16 is on the fall ballot. I said it was, in my view,
17 was a turkey. And like all turkeys it deserved
18 its fate in November, the same as most other
19 turkeys. But it was unanimous vote, and I was
20 pleased to see that.

21 Also, the day prior to that, not in
22 anticipation, but with the possibility that SB-1,
23 the solar initiative, sponsored by the State
24 Administration, would not make it to the
25 Governor's desk, which, of course, it did not.

1 In conversation with him I committed
2 that the PUC would do -- we would explore and do
3 what we could, and report back to him within 90
4 days on a program to achieve as much of what was
5 in SB-1 as fast as possible, given the fact that
6 it would not be by statute.

7 So that effort is commencing at the PUC
8 right now. And several of use are deeply involved
9 in working on that.

10 CHAIRPERSON DESMOND: In fact, President
11 Peevey, the Energy Commission also committed for
12 those provisions and elements of that program it
13 could also do. So, I think that is moving forward
14 expeditiously.

15 Commissioner Gruenieceh.

16 COMMISSIONER GRUENEICH: Yes, I wanted
17 to take a moment to recognize and thank the
18 efforts of the two Executive Directors, Mr. Larson
19 for the PUC and Mr. Blevins for the Energy
20 Commission, that they have been extremely
21 supportive of working on the climate action team
22 that is encompassed of the various state agencies
23 that are implementing the Governor's greenhouse
24 gas emission goals.

25 And I believe there is a public workshop

1 on that effort that I think is going to be held
2 here at the Energy Commission tomorrow afternoon.
3 And this is another area where the agencies in the
4 state are working closely together.

5 So, anyone who is interested in the
6 state's efforts on climate action, as I said there
7 will be a public workshop here tomorrow afternoon.
8 We are working together under the auspices of
9 Secretary Lloyd from the Cal-EPA, and will be
10 giving a report to the Governor and to the
11 Legislature in January, as far as the
12 implementation steps.

13 There is an extremely good website that,
14 again, is hosted by the Energy Commission,
15 www.climatechange.gov? is that -- I think that's
16 the ending part -- that can keep everybody up to
17 date on it.

18 The other item that I did want to
19 announce is that working with NARUC, which is the
20 National Association of Regulatory Utility
21 Commissioners or Commissions, there is a national
22 meeting in Palm Springs in November.

23 And we are going to be, as one of the
24 many workshops, hosting an area that's
25 specifically looking at integration of wind

1 resources into the grid. That this is an issue of
2 concern, not only to California, but throughout
3 the country, as many areas of the country are
4 looking at including wind resources.

5 And so we are going to be bringing in
6 national experts who will be talking about this
7 area in November.

8 CHAIRPERSON DESMOND: Thank you. If
9 there's nothing else, I'd like now to turn to the
10 public comment section of this agenda.

11 First we have Mr. Joe Sparano, President
12 of WSPA. Mr. Sparano. Following him will be
13 Robert Burt from the Insulation Contractors
14 Association. And Les Guliassi from PG&E.

15 MR. SPARANO: Good afternoon, ladies and
16 gentlemen on the panel. My name's Joe Sparano;
17 I'm President of the Western States Petroleum
18 Association, or WSPA.

19 WSPA is a nonprofit trade organization
20 that represents 26 companies that explore for,
21 produce, refine, transport and market petroleum
22 and petroleum products and natural gas here in
23 California and five other western states.

24 During the next few minutes I would like
25 to contribute several observations from WSPA and

1 our members about EAP-2.

2 Usually when I come here, particularly
3 with such a respectable and high-level panel, I
4 have some trepidation about speaking. I am often,
5 as Commissioners Boyd and Geesman have observed,
6 the only different opinion in the room. But I am
7 heartened to hear this morning and this afternoon
8 that other expressions of opinion will be welcomed
9 and will be considered, because I do have a few
10 that will be different from what's printed in the
11 EAP.

12 First, let me say that energy efficient
13 and conservation measures are good. I don't want
14 anything that I say subsequent to that to be
15 misunderstood, misconstrued by the panel or any
16 members of the public that may be listening. WSPA
17 supports both strongly; and our members have a
18 very long track record of succeeding at efficiency
19 projects and conserving energy.

20 Overall we urge the state to develop an
21 Energy Action Plan with a realistic, achievable,
22 long-term strategy and vision. It should have a
23 specific focus on a successful and balanced
24 California energy future.

25 The state needs to articulate clearly

1 that the future includes making smart and
2 efficient use of the cleanest burning petroleum
3 fuels available anywhere on earth, which we now
4 have. And adding new alternative or renewable
5 fuel solutions that are cost effective,
6 scientifically sound and technically achievable.
7 All without the use of mandates or subsidies, and
8 without ruining the economy of this great state.

9 While we have had limited time to
10 complete a detailed review of the changes that
11 have been made to EAP-2, it appears that very
12 little of our input was incorporated into the
13 updated plan. I hope, as you listen to me today,
14 and as we have dialogue as you continue with your
15 efforts on what I consider to be an important plan
16 for the State of California, that you will embrace
17 some of our input. And I am certainly willing to
18 work closely with you to make that happen.

19 The Governor's August 23rd letter talks
20 about developing a sustainable energy policy so we
21 never face another energy crisis. One issue to
22 keep in mind is that when people support a
23 significant development of alternative fuels and a
24 significant reduction in the use of petroleum
25 fuels -- those words are present repeatedly in

1 many of the documents that have been issued on
2 energy planning, on the integrated energy policy
3 of the State of California -- a crisis that would
4 impact the petroleum industry, such as Hurricane
5 Katrina certainly did, and more importantly the
6 tragedy that it placed on the millions of people
7 in the Gulf Coast area, those types of situations
8 will also impact manufacturing and distribution of
9 any alternative fuels and their facilities as we
10 go forward in time.

11 The best way to provide for a crisis is
12 to insure as much product is flowing as possible.
13 Whether that's existing clean-burning California
14 reformulated fuel or alternative fuels, or in our
15 view preferably both.

16 The August 23rd letter also says that
17 the state's energy policies must promote vigorous,
18 transparent and competitive energy markets. Seems
19 to us that this should include a vigorous
20 petroleum industry that, from its multi-billion
21 dollars of positive economic impact to the state,
22 should be viewed as an asset to cultivate, rather
23 than an industry that may view itself, at times,
24 based on what we read and see, an industry for
25 which there's a desire to perhaps minimize our

1 value and contribution to the energy supplies of
2 this state.

3 The letter contains a reference to a
4 competitive energy market. We hope this is an
5 assurance that the Administration will not endorse
6 policies that include mandates to use alternative
7 fuels, or provide for subsidies to create
8 artificial economic vitality. Or depart -- and
9 this is really important -- depart from the
10 state's traditional and valuable fuel neutrality
11 position.

12 We agree with policies that encourage
13 energy efficiency and conservation, including
14 those for transportation fuels. Programs dealing
15 with how consumers drive and maintain their
16 vehicles are critical to helping keep demand in
17 line with supply.

18 We agree with the Governor's directive
19 to develop a public information program to inform
20 consumers of the fuel savings benefits of
21 efficient tires, proper tire inflation and vehicle
22 maintenance and consistent certainly with the EAP-
23 2 with how they manage their thermostats in times
24 of extreme heat and extreme cold. Certainly an
25 effect on our natural gas supplies and the use of

1 them.

2 We feel it's important that the state
3 elect fuel diversity -- excuse me -- we feel that
4 it's important that the state utilize existing
5 supplies of clean petroleum fuels, augmented by
6 alternative and renewable energy supplies that do
7 not require mandates or subsidies.

8 This approach does not require choosing
9 one fuel over another. Or electing fuel diversity
10 over fuel neutrality. It utilizes an intelligent
11 and efficient consumption of the cleanest burning
12 petroleum products on the planet, plus the
13 development and use of economically viable and
14 environmentally competitive alternative fuels.

15 A key action that concerns us deals with
16 the selective promotion of alternative fuels over
17 clean-burning petroleum fuels. This action is
18 counter to the state's traditional fuel neutral
19 approach. WSPA supports the development of a
20 competitive, market-driven alternative fuels
21 industry, not a plan that picks the winning
22 substitute alternative or renewable fuels, and
23 requires their use by government fiat.

24 A more reasonable and constructive goal
25 would be to adopt and implement policies that

1 increase energy conservation and efficiency, while
2 facilitating maintenance and necessary expansion
3 of all energy infrastructure facilities, existing
4 an new facilities, including petroleum and
5 advanced technologies.

6 And I know there's a great effort
7 underway, the goods movement task force has done a
8 tremendous amount of work to try to insure that
9 our infrastructure is maintained and expanded.

10 We agree with the Governor and CEC's
11 earlier recognition that California must increase
12 its supply of natural gas to insure a reliable
13 energy supply, but not with the current version of
14 EAP-2 that recommends, and I quote, "the agencies
15 must reduce or moderate demand for natural gas."

16 As with a similar recommendation for
17 transportation fuels contained in the state's
18 IEPR, when demand is artificially constrained it
19 is highly unlikely any investors will put their
20 risk capital into new facilities that support
21 additional supplies, or even into maintenance of
22 existing supplies.

23 Increasing natural gas supplies should
24 be done by encouraging the construction of LNG
25 facilities and infrastructure, and with permit

1 reviews coordinated with all entities to
2 facilitate their development on the west coast.

3 In addition, the state needs to
4 specifically support the enhanced production of
5 our own domestic California onshore natural gas
6 supplies. It is the combination of imports and
7 enhancement of domestic supplies that will insure
8 a reliable overall energy supply.

9 And I do see a bit of a mixed message in
10 the EAP-2. And I'd just like to offer the
11 question, and we can certainly talk about it when
12 I'm done. I have to ask, is LNG viewed by the
13 state as better or cleaner than our own natural
14 gas? There seems to be a built-in bias that I
15 think you ought to examine in the spirit of free
16 and open expression, and perhaps opinions that may
17 not be completely in line with what is already in
18 EAP-2.

19 We support the Governor's recognition of
20 the importance of examining the issues of gas
21 quality and gas gathering, as they relate to
22 California gas production. And the need to
23 determine if additional action would help resolve
24 the issue.

25 Our members are fully involved in the

1 hydrogen highway initiative, along with being
2 founding members of the fuel cell partnership. We
3 don't, however, view this new pathway as
4 supplanting conventional fuels, but adding to them
5 for a very long time.

6 Here's some final and a little more
7 detailed comments: WSPA is disappointed in the
8 suggestion that the use of petroleum fuels should
9 be reduced, whether targeting natural gas, or on
10 page 2 of the current report, transportation
11 fuels. And I recognize that the current report
12 does not include transportation fuels, but that
13 they will be brought in in the final EAP-2. But
14 there certainly is reference on page 2 to the
15 state's feelings about transportation fuels.

16 We continue to believe there are better
17 ways to insure adequate energy supply that include
18 keeping and using the clean-burning fuels we now
19 product, expanding their use, and creating the
20 necessary additional fuel supply diversity to meet
21 future demand.

22 We support the need to improve the
23 state's planning and permitting processes to help
24 facilitate an adequate petroleum infrastructure to
25 meet our economic needs. Whether we are talking

1 about an agency expediter to assist permit
2 applicants with timely resolution of any
3 differences and difficulties with completion of
4 the process. Or with the CEC's suggestion of a
5 one-stop licensing process. We appreciate the
6 recognition of this important concept in EAP-2.

7 WSPA supports the loading order which
8 identifies combined heat and power as a priority
9 means for achieving the state's energy needs. We
10 believe cogeneration has provided, and will
11 continue to provide, with the right public policy
12 encouragement, environmentally preferred efficient
13 and reliable source of energy.

14 And finally, as we have testified
15 before, WSPA does not support individual state
16 climate change programs that will likely harm the
17 state's economy by creating uncompetitive
18 situations in California when compared to other
19 regions and countries that do not mandate
20 individual area greenhouse gas reductions.

21 To address one issue clearly, WSPA does
22 not support a mandatory state cap-in-trade
23 program. Nor do we support the development of a
24 credit-trading program specific to California or
25 any other state.

1 Please don't misinterpret my comments
2 here. We do support development of voluntary
3 national or international programs that provide a
4 greater balance between emission reductions and
5 the benefits they create, and the cost of the
6 economy and the citizens of the State of
7 California.

8 To close, balance between environmental
9 protection and economic health and growth is the
10 key. It will be required for success in every
11 area of California's energy plans and
12 implementation programs.

13 Thank you for giving me the time to
14 offer these opinions.

15 CHAIRPERSON DESMOND: Thank you, Mr.
16 Sparano. I'm sure there are several questions, so
17 why don't we start with Commissioner Pfannenstiel.

18 COMMISSIONER PFANNENSTIEL: Really, just
19 one. Your reference to the Energy Action Plan.
20 Your specific comments were addressed to the
21 natural gas draft that was last circulated, or
22 what the PUC adopted?

23 MR. SPARANO: The August 25th draft, or
24 it says final, is the last one I saw,
25 Commissioner. And in it there is a specific

1 reference that transportation fuels would be dealt
2 with later. But there was also a reference, that
3 like natural gas, use of petroleum-based
4 transportation fuels needed to be reduced.

5 That was my reference, and I'm hopeful
6 that we can deal with that further as EAP-2 is
7 completed.

8 COMMISSIONER PFANNENSTIEL: Well, as I
9 mentioned before, there's a plan, an intention to
10 put the transportation fuels section back in. So
11 there was a version that had circulated earlier.
12 I believe they did have that in there.

13 Were you specifically -- you had
14 commented on that.

15 MR. SPARANO: I believe you're --

16 COMMISSIONER PFANNENSTIEL: And I'm a
17 little unsure where you are about that version.

18 MR. SPARANO: My comment was directly
19 related to this current version which does not
20 include it. Until I heard this morning, like
21 everyone else, I was not aware that it would be
22 put back in.

23 The earlier version, I believe, was very
24 closely aligned with the IEPR that has repeatedly
25 called for the reduction, in some cases by a

1 specific percent, in the demand for petroleum and
2 petroleum-based fuels.

3 And it is our opinion that there's a
4 better way to deal with the state's energy supply
5 issues, and perhaps crises. And that is to
6 continue producing clean fuels and cleaner fuels
7 that are petroleum based and augment them with
8 renewable and alternative fuels that are
9 economically viable and can be put into the
10 marketplace in a reasonable amount of time.

11 We've called that petroleum-plus, rather
12 than an approach that drives petroleum out of the
13 market.

14 So that was the source of my comments,
15 Commissioner.

16 COMMISSIONER PFANNENSTIEL: I
17 understand, thank you.

18 CHAIRPERSON DESMOND: President Peevey.

19 PRESIDENT PEEVEY: I just have one
20 question, maybe it'll lead to another. You don't
21 like what the Governor announced on June 1, then,
22 on climate change.

23 The state, he set very vigorous goals,
24 2010, reduction to the 2000 level. 2020,
25 reduction 1990 level and so forth. You find this

1 repugnant?

2 MR. SPARANO: You don't need to try to
3 put me in a position to attack the Governor,
4 because I won't.

5 PRESIDENT PEEVEY: I'm not trying to put
6 you in a position -- I'm just trying to understand
7 what you said. You said you don't like state
8 initiatives. We have a Governor --

9 MR. SPARANO: Well, I didn't use the
10 word repugnant. You did. I think that's a little
11 bit of a stretch of a word to use. I've heard a
12 lot of stretches this morning --

13 PRESIDENT PEEVEY: You dislike it.

14 MR. SPARANO: I dislike the word, yes,
15 sir, thank you.

16 PRESIDENT PEEVEY: Not repugnant, you
17 dislike the Governor's policy.

18 MR. SPARANO: No, what we have said, --
19 I thought you were open to other opinions.

20 PRESIDENT PEEVEY: We're trying to be.
21 Go ahead.

22 MR. SPARANO: What the Governor
23 announced we have repeatedly testified before the
24 CEC that we are concerned about the economic
25 impact on California if the Governor's plan is

1 directly solely to California. We have suggested
2 that voluntary rather than mandated reductions be
3 used. And that they be considered on a national
4 and international level. That's the extent, the
5 breadth, and the specificity of our previous
6 testimony.

7 We have not attacked the Governor. As
8 you might imagine, some of our members have
9 different feelings about this, and we've tried to
10 respect them in constructing our comments.

11 COMMISSIONER BROWN: You say that this
12 Energy Action Plan is intended, or has the effect
13 of driving petroleum out of the market. But
14 there's no danger of that. I mean the danger is
15 as Exxon and T. Bone Pickens has said, if we --
16 you know who he is?

17 MR. SPARANO: T. Boone Pickens?

18 COMMISSIONER BROWN: Yes.

19 MR. SPARANO: Yes. Yes, I do. I've --
20 I understand who he is.

21 COMMISSIONER BROWN: Okay, he's an oil
22 man, isn't he?

23 MR. SPARANO: Yes, he has been for a
24 very long time.

25 COMMISSIONER BROWN: The president of

1 Exxon is an oil man, right?

2 MR. SPARANO: I hope so.

3 COMMISSIONER BROWN: Okay, and he --

4 (Laughter.)

5 COMMISSIONER BROWN: -- has said that
6 the petroleum supply of the world is in danger of
7 being depleted. He says that every day in The New
8 York Times, full-page ad.

9 MR. SPARANO: I think that's not quite
10 what he said, but I'd be happy to discuss that
11 with you separately. What I'm concerned about
12 specifically is the notion that instead of adding
13 to the clean fuels we already have -- and they are
14 clean in large part because of state mandates.
15 The companies that produce these fuels, whether
16 they are petroleum liquid fuels or natural gas,
17 produce them to specifications that meet the state
18 standards. And they are clean.

19 We are opposed to the idea that one
20 should take those off the table and replace them
21 with as yet, in some cases, technically or
22 scientifically proven, and certainly not
23 economically viable and competitive, other fuels.

24 We are saying add those to the existing
25 mix. This is not a negative observation as it

1 seems to be taken, but rather one that seeks out
2 collaboration and addition-to, rather than moving
3 away from. I hope that answers your question.

4 COMMISSIONER BROWN: But it seems, I
5 mean when you say that we're driving petroleum out
6 of the market, I mean that, in light of the
7 profits that the petroleum companies and
8 industries are presently getting, and the amount
9 that is being used, --

10 MR. SPARANO: Would you like to discuss
11 that subject?

12 COMMISSIONER BROWN: Yeah, later. That
13 that is really a stretch, talking about a stretch.

14 MR. SPARANO: Yeah, the point, again, --

15 COMMISSIONER BROWN: I mean there's no
16 fewer people on the highways today.

17 MR. SPARANO: The point, again, was that
18 the notion, the ideology of reducing, by
19 government fiat, the amount of petroleum and other
20 fossil fuels is what we are opposed to. And
21 certainly there are lots of different opinions you
22 can find as to when we may hit a petroleum peak,
23 when it may go away.

24 The statistics on profits are as
25 follows, according to "Business Week" in the

1 second quarter of this year. And I'll go back 25
2 years, if you'd like. The petroleum industry, on
3 a margin basis, made 7.6 cents on the dollar.

4 Of course, the numbers that are behind
5 that are huge. They're phenomenally large,
6 billions of dollars of numbers.

7 But I think it's important not to
8 confuse them with the national average, as
9 published by "Business Week" of 7.9 cents on the
10 dollar. Banks, 20 percent. Semiconductors, 18
11 percent. Electrical components and financial
12 services in the 14 percent range.

13 So what we have is a public perception
14 grown over a number of years that these profits in
15 the absolute sense are exorbitant and high. I
16 disagree with exorbitant. I certainly can't
17 disagree with high. On a margin basis they are
18 right in line with the rest of the country.

19 CHAIRPERSON DESMOND: Mr. Sparano, I
20 have a few questions if you'll bear with me.
21 First, did your remarks, were they prepared after
22 or in light of the Governor's response to the
23 Integrated Energy Policy Report?

24 MR. SPARANO: If we are talking about
25 the August 23rd response, it was after.

1 CHAIRPERSON DESMOND: It was.

2 MR. SPARANO: Um-hum.

3 CHAIRPERSON DESMOND: And the reason I
4 ask that question is I'm trying to reconcile what
5 I think are some pretty clear messages that the
6 Governor laid out. In fact, I'm not so sure
7 you're all that far off.

8 And so let me just highlight one, with
9 respect to increasing the use of nonpetroleum
10 fuels. The Governor says, it's simply not enough
11 to adopt a goal. But that the means identified
12 were insufficient and that the report noted little
13 progress. And has asked the Commission, in
14 partnership with Cal-EPA and the other agencies,
15 some of those represented here, some not, to
16 assess trends in transportation fuels, technology
17 and infrastructure, supply and demand, the outlook
18 for wholesale and retail prices of petroleum and
19 petroleum products, and evaluating needed changes
20 to increase conservation, and other actions to
21 maintain -- and my emphasis here -- sufficient,
22 secure and affordable transportation fuel
23 supplies.

24 So that, to me, is a pretty clear
25 direction that we have to consider all those

1 factors as we go forward. And then, to that end,
2 the Commission is working.

3 I'd also highlight, regarding the
4 information program, that a public information
5 program should include those facts. And then with
6 respect to the petroleum infrastructure
7 permitting, the Governor said that the state's
8 needs, the state would also help strengthen
9 California's energy infrastructure by increasing
10 the awareness of, and coordination with, the
11 state's needs and policies, and by developing
12 guiding principles for approval of new petroleum
13 facilities. And that the Commission should
14 continue to investigate, recommend, support means
15 by which.

16 So, in all those three instances here I
17 think the Governor's pretty clear about saying we
18 need a balanced, responsible approach. But,
19 having said that, here's where I want to make sure
20 I'm clear. I'm always willing to consider many
21 points of view here. And so I'd certainly
22 appreciate a written copy of the remarks that you
23 prepared today.

24 But, there were a couple things you said
25 that I thought were in conflict. And while we

1 have documents, I think it helps to understand
2 where those are.

3 On one hand you said you were
4 disappointed with the suggestion that we should
5 reduce petroleum usage, or perhaps natural gas.
6 And then in another sentence you said you support
7 the state's loading order, which emphasizes first
8 meeting through efficiency, and reducing the rate
9 of growth.

10 So I want to understand that. And not
11 to put words in your mouth, but your position with
12 respect to state-specific offsets is that, you
13 know, state alone shouldn't deal with this, but
14 that if you're going to do it you should be
15 looking at a regional/national system. Although
16 you clearly take issue with the notion of
17 mandatory cap-in-trades, is that correct?

18 MR. SPARANO: Yeah, I think it's global
19 climate change, and that's what we're referring
20 to.

21 But, let's go back just a second, in the
22 middle of the series of comments you made, I took
23 great pains to start by saying our industry
24 strongly supports efficiency and conservation.
25 What we don't support is government fiat to reduce

1 the products that we make, and that we make
2 according to the standards you all set.

3 If that is confusing, then I hope this
4 clears it up.

5 CHAIRPERSON DESMOND: Thank you, that
6 does.

7 Second question regarding that you did
8 not believe in the support of mandates or
9 subsidies for these alternative fuels. I guess
10 the question is in the broadest sense, do you
11 currently believe that the petroleum industry
12 enjoys other forms of subsidies already today?

13 MR. SPARANO: Without knowing what
14 you're talking about, it makes it difficult --

15 CHAIRPERSON DESMOND: Like tax
16 subsidies, R&D subsidies, or in other words, is
17 that a fair and balanced view of how we should be
18 looking at petroleum fuels or alternatives to
19 petroleum fuels.

20 MR. SPARANO: I think there are a number
21 of opinions about what support the petroleum
22 industry may enjoy now. And I've seen a number of
23 opinions about the new federal energy plan that
24 suggests that it's filled with support. And when
25 you break it all down, it's about a break-even

1 rather than supporting.

2 So, again, without specifics it makes it
3 difficult. What I'm talking about is having the
4 state choose winners. I don't think that's a good
5 idea. Choosing winners often involves mandating
6 their use and subsidizing their economic vitality.

7 And that's, I think I used those words
8 before, as an area that I'm concerned about, and
9 on behalf of our industry, and that I wanted to
10 share with you this morning so that you could
11 consider it as another alternative.

12 PRESIDENT PEEVEY: I think we appreciate
13 that, but I mean are you, for example, -- there's
14 been so much, you know, water under the bridge in
15 this, or over the dam. Are you saying here in
16 September of 2005 that you don't like the idea
17 that the state has mandated by statute and by EAP
18 action 20 percent renewables?

19 I mean that's a clear policy preference
20 now, 20 percent renewables by 2010 in the EAP-1,
21 and by statute, 2017, you oppose that?

22 MR. SPARANO: No. In fact, I'm on
23 record in testimony here in this room that says
24 WSPA supports renewable fuel additions to the
25 supply chain, without subsidies, in that case.

1 PRESIDENT PEEVEY: Well, then so you're
2 opposed to the public goods charge that the Public
3 Utilities Commission -- puts into effect, that
4 helps subsidize, and in fact, subsidizes --

5 MR. SPARANO: Is that the new 76 that
6 was just signed?

7 PRESIDENT PEEVEY: It's been around;
8 we're spending \$800 million or so. I mean,
9 through the utilities in this. You find that
10 undesirable?

11 MR. SPARANO: I think in a free market
12 economic system all those techniques that use
13 government fiat as opposed to the market, itself,
14 are less attractive. And I believe that's what
15 I've been trying to get across.

16 And you can pick and choose examples to
17 try and trip me up, but I think the basic
18 message --

19 PRESIDENT PEEVEY: You're getting -- I'm
20 not trying to trip you up, don't be defensive.
21 I'm just --

22 MR. SPARANO: -- the basic message is
23 the same.

24 PRESIDENT PEEVEY: -- trying to
25 understand the point of view.

1 MR. SPARANO: The basic message is the
2 same. We are concerned about government mandates
3 and dictates that pick winners, that move away
4 from fuel neutrality, and call it fuel diversity,
5 that decide upon which fuels will be used.

6 And I think it's a legitimate concern.
7 I happen to represent the petroleum industry, so I
8 may be looked upon as perhaps a nonobjective voice
9 in this debate, but I think it's a legitimate
10 concern that everybody in the state should have.

11 We can all disagree, it's getting it
12 right in the end that we're hoping for.

13 PRESIDENT PEEVEY: I would concede that
14 it's a legitimate concern. Did you have a
15 position on SB-1?

16 MR. SPARANO: I'm not familiar -- would
17 you --

18 PRESIDENT PEEVEY: That would -- the
19 solar bill. The solar bill; Mr. Murray. It was
20 in the paper constantly. What was WSPA's position
21 on that?

22 MR. SPARANO: Our members are so
23 involved with solar in the research and
24 development of solar projects. We have several
25 members that have spent hundreds of millions of

1 dollars developing solar projects. So, as an
2 industry, we are quite supportive of solar, wind
3 power --

4 PRESIDENT PEEVEY: I'm asking if you had
5 a position on the bill in the Legislature. You
6 lobby, do you not? You're --

7 MR. SPARANO: No, I'm not a lobbyist.

8 PRESIDENT PEEVEY: No, not you, but your
9 organization.

10 MR. SPARANO: Yeah, it does.

11 PRESIDENT PEEVEY: It has an advocacy.
12 What was your position on SB-1?

13 MR. SPARANO: I'm not sure. I'm telling
14 you what our position is on solar.

15 PRESIDENT PEEVEY: Thank you.

16 MR. SPARANO: I'm not sure; I would have
17 to fake an answer, which I won't do.

18 PRESIDENT PEEVEY: Okay.

19 CHAIRPERSON DESMOND: Mr. Sparano, I
20 appreciate that. I'll go back to what I said,
21 you know, I think there's a genuine interest here
22 in making sure we find ways to address both the
23 reliability and affordability of meeting the
24 state's fuels needs.

25 One thing that perhaps Commissioner Boyd

1 would comment on, that we also consider falls
2 within this context is gas-to-liquids, which is a
3 domestic way of addressing that issue.

4 So, what I'm hoping here is as the
5 Commission begins to pull together its workshops
6 in coordination with the other agencies, that
7 we're able to call upon the vast resources of your
8 members and bring the science to bear in helping
9 us to understand what is and is not realistic in
10 both the short-, medium- and long-term time
11 horizon.

12 Commissioner Boyd, maybe you can add to
13 that.

14 COMMISSIONER BOYD: Well, thank you,
15 Chairman. As Mr. Sparano said, as he approached
16 the microphone, that he has testified at length,
17 ad nauseam, before Commissioner Geesman and I on
18 the IEPR. And all that I've heard my fellow dais
19 members here say today are things that he's heard
20 from myself or Commissioner Geesman with regard to
21 some of these points of view.

22 Gas-to-liquids is one of the
23 alternatives that we, this agency, has pushed very
24 very hard. It would be a fuel that would be a
25 product of the current oil/energy companies.

1 Many of them are holders of natural gas
2 supplies; natural gas is another transportation
3 fuel that we've been interested in.

4 I found it kind of curious -- well, and
5 Joe's heard this from me ad nauseam, every
6 President since, including President Nixon, said
7 we need to reduce our dependence on petroleum.
8 The Governor has now agreed the nation-state of
9 California needs to reduce its dependence on
10 petroleum. Every report out of this agency since
11 I've been here said that, as Commissioner Brown
12 said, that petroleum is going to be the dominant
13 fuel, but we need to diversify the portfolio.

14 So we are looking at ways of
15 diversifying that portfolio. Some of which would
16 benefit the oil industry; some of which would
17 diversify it in a way that would benefit other
18 folks.

19 So, I just -- and the comments on
20 natural gas, LNG versus our state gas. On the one
21 hand you support LNG, on the other hand you said
22 we may be biased in not helping the state gas
23 supply.

24 I think a top priority for several years
25 around here has been to -- and all the agencies

1 sitting here -- help get the state gas supply
2 absolutely maximized. And have worked to get the
3 collection system issue resolved, to get the gas
4 quality issue resolved. And worked with other
5 agencies to get permitting of gas wells resolved.

6 But I think we all recognize that it's
7 better to use our own California domestic gas.
8 But we've also said that's not enough. And we
9 need LNG. We need to diversify the portfolio
10 approaches.

11 And I'm always aghast, and I've bit my
12 tongue many a time about this idea of no
13 subsidies. I mean, there is such a litany of
14 subsidies to the oil industry down through the
15 centuries, that it bothers me to hear your
16 supportive of things without subsidies, when
17 that's been an issue that's been debated many many
18 times.

19 We need fuel diversity; any good
20 portfolio, financial or otherwise, has now
21 recognized you need diversity.

22 And Commissioner Geesman, in particular,
23 has broken his pick trying to get improvements in
24 a permitting process for the petroleum industry.
25 And you did make mention of that. But, the hyper-

1 sensitivity to the idea of reducing our dependence
2 on petroleum just permeates any discussion we ever
3 have here. And it's been a national policy; and
4 now it's a state policy; and we're going to be
5 guided by that policy.

6 So we're going to be at loggerheads on
7 that one issue while we try to cooperate and use
8 the resources of your industry, which controls the
9 most part of the petroleum fueling infrastructure.
10 And we've tried to point out opportunities for
11 your industry to get into the GTL business. Or to
12 use, perhaps, that mid-grade pump to get E-85 out
13 there. There's a quarter of a million cars
14 running around in this state that could burn that
15 fuel; that would give us a little diversity.

16 There's a lot to work on, but there's a
17 lot that's frustrating, as well.

18 MR. SPARANO: Yeah, and let me just add
19 a comment, because you mentioned it, Chairman
20 Desmond, and because Commissioner Boyd mentioned
21 it.

22 There's more than one way to get at
23 diversity, not just by reducing the numerator, but
24 by expanding the denominator. And that's really
25 in the most simple terms I can think of what I'm

1 talking about. Don't take away what's good. Let
2 us improve it. Let's keep using it.

3 The other piece is a sense I get that
4 the panel may not be aware of just how extensive
5 the companies that I represent are in all forms of
6 alternative fuels. Gas-to-liquids is one. One of
7 our companies has a plant being built in China.
8 Three of our companies have plants that are going
9 to be built in Qatar, \$15 billion worth of
10 investment.

11 I might add that public policy is not an
12 insignificant issue. There has been, and perhaps
13 we disagree, Commissioner Boyd, there has been, it
14 appears, a bias against the addition of petroleum
15 facilities. We haven't added a refinery in 36
16 years. There are many places in this state and
17 this country where we cannot drill for known
18 reserves. That's public policy. I vote, too.
19 And we elect people and they make public policy.

20 But we all can't just be satisfied with
21 one part of it, and rail against the other. So,
22 that's an issue that I wanted to make sure you
23 were aware of. We are definitely strongly
24 supportive and spending a lot of money on
25 alternative fuels.

1 CHAIRPERSON DESMOND: Thank you. I
2 think Commissioner Pfannenstiel had one comment,
3 and then we'll --

4 COMMISSIONER PFANNENSTIEL: Just a
5 clarifying question, Mr. Sparano. You referred to
6 the reference in some version of the Energy Action
7 Plan to reducing petroleum fuels. And that being
8 something that you wouldn't support.

9 But looking at the Governor's IEPR
10 response, it pretty clearly says that the Energy
11 Commission should develop a plan, work with other
12 agencies to develop a plan that will result in
13 significant reductions of gasoline and diesel use.

14 So it seems like we have our marching
15 orders to do that. And so to issue an Energy
16 Action Plan that sets out priorities that didn't
17 include that seems to me to be sort of flying in
18 the face of what we've been told to do.

19 So, I just wanted you to be aware that
20 you may well see that again, and there's a good
21 reason for it.

22 MR. SPARANO: And that's a completely
23 fair statement, and I appreciate it. I guess what
24 I'm asking you to do is keep thinking about it.
25 It may not be the right answer.

1 CHAIRPERSON DESMOND: Thank you, Mr.

2 Sparano.

3 MR. SPARANO: Thank you, thank you for
4 all this time.

5 CHAIRPERSON DESMOND: Yes. Mr. Burt.

6 MR. BURT: Thank you. I'm Mr. Burt,
7 representing Insulation Contractors. And before I
8 go into my relatively brief notes, if I may
9 respond to a few things I heard this morning.

10 First of all, I'm an avid follower of
11 markets, and I happen to know that T. Boone has
12 made most of his money buying and selling stock.
13 And he has a very serious interest in convincing
14 people that oil is going to be short for a long
15 time. That overlooks, for example, the fact that
16 the Canadian oil sands have enough oil to last us,
17 at current usage, roughly a century.

18 Another unpopular comment connecting
19 with markets, I would say that I follow the
20 futures markets. And nearly everybody is now
21 betting that crude oil is going to go up. Chat
22 means the bets are in. It's a pretty good chance
23 that the prices are going to go down for awhile.
24 That's not a popular comment, but I suggest that
25 you watch.

1 Also, the market does not show a very
2 substantial bet higher than current prices on out
3 months; you can go all the way out to buy crude
4 due to you in 2010 at about current prices. So
5 the market, although they're betting on current
6 months going up, they're not too confident on the
7 future going up.

8 The next comment is unrelated. I have
9 had the melancholy duty since '65 of being a
10 lobbyist. And I am very happy to agree with a
11 comment made earlier, if possible stay out of the
12 Legislature. I would also add that if the
13 Governor wins some of his bets in the upcoming
14 election, in a few years the Legislature might act
15 a lot better.

16 And the next unrelated comment. I have
17 watched California agencies for that same time.
18 And I am very happy to see that they have deviated
19 from their original process of acting as
20 independent as hogs on ice, and are now really
21 working together.

22 And I strongly commend that. And I
23 suggest, in connection with what I just said, make
24 sacrifices to work together to avoid going to the
25 Legislature.

1 And lastly on SB-1, it's very difficult
2 to get anyone sensible to make a statement on a
3 policy on SB-1 because the bill was hijacked and
4 ruined. The biggest single adverse impact was the
5 unions put in an amendment that said that all this
6 work in commercial structures would have to be
7 done under the so-called prevailing wage, which
8 would add at least 30 percent to the cost of an
9 already pretty difficult technology to make
10 competitive.

11 That amendment was the major reason that
12 it lost most of its support from its previous
13 supporters.

14 Now, turning to my own comments, I want
15 to reiterate and call your attention to the study
16 by the Energy Commission recently released, that
17 showed that energy efficiency sponsored by the
18 various Commissions, had been a sensational
19 bargain. And I would like to simply make a plea
20 to increase the volume.

21 And I would add further that this is not
22 necessarily an insulation item. The fact is, that
23 as history has gone by, insulation has been one of
24 the easiest conservation measures to install. So
25 the fact is that at present our people are not the

1 biggest beneficiaries from these programs. But
2 feel that they are very valuable as is best shown
3 by a recent Energy Commission study.

4 And with that, I withdraw for questions.

5 CHAIRPERSON DESMOND: No further
6 questions, thank you very much, Mr. Burt, for your
7 comments.

8 Mr. Guliasi, who will be followed by
9 Gary Schoonyan and then Clyde Murley, Jan
10 McFarland.

11 MR. GULIASI: Thank you and good
12 afternoon. Les Guliasi for Pacific Gas and
13 Electric Company. I'm here with all due deference
14 and I'm delighted that I don't have to salute.

15 Actually I was in China in --

16 CHAIRPERSON DESMOND: You can, if you'd
17 like.

18 (Laughter.)

19 MR. GULIASI: Well, I choose not to.

20 CHAIRPERSON DESMOND: Although Secretary
21 Chrisman won't get the benefit of that, but we'll
22 let him know.

23 MR. GULIASI: That's why I'll let it
24 slide this time. I was actually in China in 1976
25 on a University of California delegation. And the

1 Chinese were very hospitable and very polite. And
2 we have a lot to learn from them, but I'm glad
3 we've evolved to the point where we don't have to
4 salute.

5 COMMISSIONER KENNEDY: I forgot to
6 mention that PG&E was on that delegation with us
7 to China, and was very very helpful.

8 MR. GULIASI: Good, thank you.

9 I want to address two things this
10 afternoon. I wanted to touch briefly on PG&E's
11 preparedness for the summer of 2006, and then talk
12 a little bit about the 2005 Energy Action Plan.

13 So, with respect to the summer of 2006,
14 PG&E plans to have all of our resources in line to
15 meet at least 115 percent of our expected retail
16 peak demand, even for a one-in-two demand
17 situation, for each of the summer months during
18 2006.

19 CHAIRPERSON DESMOND: I'm sorry, did you
20 say even for a one-in-two?

21 MR. GULIASI: Yes. We have --

22 CHAIRPERSON DESMOND: Do you mean one-
23 in-ten, because that's the minimum requirement at
24 the PUC?

25 MR. GULIASI: I believe it's one-in-two.

1 CHAIRPERSON DESMOND: That's business as
2 usual.

3 MR. GULIASI: Is that correct?

4 COMMISSIONER KENNEDY: Given the numbers
5 we saw, I bet it's one-in-ten because --

6 CHAIRPERSON DESMOND: Yeah, --

7 MR. GULIASI: Okay, I may --

8 COMMISSIONER KENNEDY: -- there's a lot
9 of --

10 MR. GULIASI: -- I may have a mistype
11 here.

12 CHAIRPERSON DESMOND: Okay, trying to
13 help you, that's all.

14 MR. GULIASI: I'll check. Through the
15 resources we own, through those that we contract
16 for, through purchases we can make on the spot
17 market, and through our demand reduction programs,
18 all of which we expect to have in place, we
19 believe that we're fully resourced for the summer
20 of 2006, fully consistent with the presentation
21 you heard this morning from Dave Ashuckian.

22 Now, moving on to the 2005 Energy Action
23 Plan. As you know, PG&E has been supportive of
24 the Energy Action Plan since its inception. And
25 we've been active in support of and a participant

1 in the Energy Action Plan forum.

2 The Energy Action Plan has accomplished
3 a great deal. And I believe that the new version
4 of the Energy Action Plan holds the same promise.
5 The two greatest achievements have been the
6 coordination and the cooperation among state
7 agencies and stakeholders, which I believe in
8 spite of, or maybe even because of, the
9 controversial debate we have here. We believe
10 that this cooperation and coordination is real,
11 not merely symbolic.

12 And the other important accomplishment
13 has been the establishment and following of the
14 loading order. When we commented on the draft of
15 the Energy Action Plan a couple months ago, we
16 offered three things, made three recommendations.

17 First, we believe that when you make
18 your policy choices and your decisions, the
19 agencies must consciously and realistically
20 balance competing public policy objectives to
21 produce optimal outcomes.

22 We want to have environmentally
23 preferred resources; we want to have a supply
24 portfolio that gives customers a reliable supply
25 and the utility operational flexibility.

1 We want to have choices that minimize
2 rate impacts, both in the short run and in the
3 long run, recognizing that California operates in
4 a global economy.

5 The second thing we recommended was that
6 we asked you to address key foundational issues
7 first before embarking on too many new
8 initiatives. Among the things that we believe you
9 need to address first are solving the problem of
10 the long-term resource adequacy question. And the
11 development of a structure for planning and making
12 long-term commitments to solve the problem of who
13 is actually planning for direct access customers
14 and potentially new community choice aggregation
15 customers.

16 We also asked that you address the whole
17 issue of enhancing the utility infrastructure.
18 This is a question that Commissioner Geesman
19 raised in his introductory remarks, and you've
20 discussed, I think, in a quite healthy way this
21 morning.

22 And we also asked that you create a
23 stable wholesale market, including the development
24 of a workable capacity market.

25 So these are some of the key

1 foundational issues that we think we ought to
2 spend time on and address those, solve these
3 problems first before embarking on too many new
4 things.

5 And the third thing we asked in our
6 comments was that you implement existing programs
7 first before setting new goals. And I think I'm
8 heartened by the remarks you made in this current
9 version of the Energy Action Plan where once you
10 devote time evaluating the effectiveness of
11 programs like energy efficiency and the RPS goals.
12 I think those are good signs in this version of
13 the Energy Action Plan.

14 As I mentioned earlier, the most
15 important substantive contribution from the
16 original Energy Action Plan was the establishment
17 of the loading order. But the Energy Action Plan,
18 in its current version, is not a perfect document
19 in every respect.

20 There are some things in the current
21 program that give us pause for concern. And we
22 ask you to pay particular attention to a couple of
23 the things that I'm going to point out, just by
24 way of example.

25 One is probably more procedural; the

1 other, I believe, is more substantive. But these
2 are illustrative of some of the concerns we have.

3 The first issue concerns the issue of
4 data confidentiality. Again, this was discussed a
5 little while ago. In the course of the Energy
6 Commission's IEPR some parties, chief among them
7 the investor-owned utilities, could not reach
8 agreement on whether certain data that we
9 submitted to the Commission ought to be kept
10 confidential or released publicly.

11 I'm not going to recount the entire
12 debate that ensued at the Energy Commission. I
13 just merely want to point out that the issue of
14 data confidentiality remains a serious contested
15 issue, and it needs resolution by your agencies.

16 We encourage you to come up with a
17 consistent and a clear set of rules that apply
18 equally to both agencies insofar as you are
19 working together and in tandem.

20 As Commissioner Grueneich pointed out,
21 the California Public Utilities Commission has a
22 rulemaking in place, and we ask that both agencies
23 work together in that rulemaking, in the spirit of
24 cooperation intended in the Energy Action Plan, to
25 develop a consistent set of rules that apply

1 universally to both agencies.

2 The second issue I want to bring up I
3 believe is more substantive, rather than
4 procedural, though it will play out in the various
5 proceedings, both at this Commission and at the
6 Public Utilities Commission.

7 There's a tendency in the Energy Action
8 Plan for what I call policy creep. That is a
9 tendency for new items or new interpretations or a
10 new emphasis to creep into the policy priorities
11 without sometimes having due consideration.

12 And I want to bring up one example of
13 this. It has to do with the whole issue of
14 distributed generation, and what we call combined
15 heat and power, cogeneration.

16 PG&E supports customer options like DG
17 and combined heat and power so long as they meet
18 the policy principles that I mentioned at the
19 outset. They provide or produce reliable supply
20 for customers; they provide operational
21 flexibility for the utility; they're cost
22 effective for customers and for society; they have
23 minimal customer rate impacts; and they're
24 environmentally benign, or environmentally
25 preferred.

1 The current version of the Energy Action
2 Plan is largely silent when it comes to the
3 question of evaluating the cost effectiveness of
4 programs and goals. What ought to be added to the
5 Energy Action Plan is a process of both agencies,
6 or perhaps in this forum, to develop a single
7 approach to evaluate the cost effectiveness of all
8 social programs set out in the Energy Action Plan.

9 We're rapidly approaching the point
10 where we have too many disparate goals, too many
11 silent initiatives, too many regulatory
12 proceedings that are not timed or sequenced in a
13 coordinated manner.

14 So as you move forward, both agencies,
15 in the direction of long-term integrated resource
16 planning with a least-cost/best-fit framework for
17 resource development and acquisition then we ought
18 to have a single market-based approach to evaluate
19 the cost effectiveness of the social programs and
20 the goals expressed in the Energy Action Plan.

21 And finally, we ought to have the clear
22 sense of the budget that we're working with to
23 insure that, as a society, we make conscious
24 decisions; and that we can afford all the choices
25 that we make.

1 That concludes my remarks. Thank you
2 for the time.

3 CHAIRPERSON DESMOND: Thank you very
4 much. Any questions? Commissioner Geesman.

5 COMMISSIONER GEESMAN: Les, actually I
6 think that the combined heat and power topic may
7 be a good one to watch in the months ahead,
8 because I think that it does potentially represent
9 a very good example of the two agencies working
10 quite closely together.

11 As I think you know, the PUC has an
12 extensive proceeding underway evaluating cost
13 effective metrics to apply to distributed
14 generation.

15 But, you know, if you didn't like the
16 relatively benign language promoting combined heat
17 and power in the Energy Action Plan you're really
18 going to dislike the IEPR. And I would
19 specifically call your attention to the sections
20 in that report, when it comes out later this week,
21 on combined heat and power. Because I would
22 expect that there will be a considerable amount of
23 activity in this area going forward.

24 Your comments about the planning
25 uncertainty caused by direct access leaves me a

1 little befuddled. In our IEPR workshops we heard
2 certainly from your company, from the other two
3 utilities, from TURN and from ORA in response to
4 this topic, that the real difficulty in the
5 planning uncertainty that the utilities face is a
6 question of coming and going rules.

7 And certainly I think the Public
8 Utilities Commission's procurement decision last
9 December made very clear its intent, through the
10 procurement process, to avoid the creation of
11 stranded assets and the intention to utilize exit
12 fees in order to prevent that.

13 Why can't we resolve this coming and
14 going issue and move on? We've heard now for
15 several years that the dilemma of uncertainty for
16 utility planners. But if it's a question really
17 of simply framing coming and going rules,
18 recognizing the controversial nature of that to
19 all variety of stakeholders, can't we simply
20 resolve that, move on, and reduce your
21 uncertainty?

22 MR. GULIASI: I think the exit rules,
23 the coming and going rules, is a piece of the
24 solution. But, you know, I wish I could answer
25 the question about why can't we solve this problem

1 and move on. We've been debating this subject for
2 several years now, and we haven't been able to
3 solve the problem.

4 Nonetheless, we still have
5 responsibility for resource acquisition. Many of
6 the rules have been put in place and we're moving
7 forward. But we're still not there as a state.
8 And I don't know exactly when we're going to get
9 there or how we're going to get there.

10 COMMISSIONER GEESMAN: But could the PUC
11 have been any less clear last December in their
12 procurement decision as to their intent to make
13 you whole?

14 MR. GULIASI: No, I think they've made a
15 lot of progress. But still, we're still faced
16 with the big question about planning and
17 acquisition of resources.

18 We don't have certainty about what the
19 rules are for direct access. Yes, we have direct
20 access suspended temporarily. We have the whole
21 question being raised once again through the
22 initiative that Chairman Desmond spoke about
23 earlier, proposition 80.

24 So, you know, we're not at a place yet
25 in the state where we have certainty about this

1 issue. And in fact, we have perhaps more
2 uncertainty. And if that proposition passes,
3 we're going to be faced with another round of
4 great deal of uncertainty.

5 CHAIRPERSON DESMOND: Commissioner Boyd.

6 COMMISSIONER BOYD: Quick comment, Les,
7 on CHP again. You talk about the need for
8 evaluation and what-have-you, is fine by me. I
9 think that's fair with regard to lots of different
10 things.

11 The things that concerns me is perhaps
12 the evaluation criteria we use are sometimes
13 incomplete. And it's tough, I know. CHP has a
14 lot of other values that maybe we aren't valuing
15 in this unfortunate post-9/11, post-Katrina 21st
16 century we live in. There are security values;
17 there are other business and economic losses that
18 occurred.

19 And, you know, CHP may have values that
20 we aren't taking into account now. And we need to
21 think about that. And I think we're trying to
22 think about that here, at least on this dais I've
23 heard that.

24 And for instance, maybe every refinery
25 in the State of California should have its own

1 cogen facility so it could stand alone in the
2 event of a natural or an unnatural disaster, et
3 cetera, et cetera. These are the kinds of debates
4 we've got to have. And we need to put values on
5 them.

6 It's like every since we crawled out
7 from the rubble of the electricity crisis the
8 debate's been about cost, and the insurance. I
9 mean, how much do you pay for the quote,
10 "insurance." And what does it do to the cost of
11 doing business. And we have to deal with that.

12 And then last, but not least, all the
13 artifacts left over from that electricity crisis,
14 the cost of the mortgage we took out to save the
15 state, so to speak. And we're still dealing with
16 them. And I would agree, the sooner we clear
17 those up, the better. But it's going to take
18 awhile.

19 MR. GULIASI: Commissioner Geesman,
20 thanks for the warning about what we'll likely see
21 in a few days in the report. And you can be sure
22 that we'll be here discussing that issue.

23 CHAIRPERSON DESMOND: Commissioner
24 Grueneich, did you want to just add anything?

25 COMMISSIONER GRUENEICH: Yes. Three

1 very quick points. With regard to the combined
2 heat and power, that is one of the strategies that
3 the Governor has identified specifically that
4 needs to be looked into and pursued, if feasible,
5 in order to meet the climate reduction goals.

6 And so this is an area where I want to
7 emphasize that both the PUC and the Energy
8 Commission are taking very seriously.

9 With regard to the switching, the direct
10 access switching rules and the exit fee cost
11 recovery, I want to again emphasize what
12 Commissioner Geesman just said, is that I have,
13 for many years, heard the complaints of the
14 utilities about how can we do any planning given
15 uncertainty.

16 And at the PUC we have had in place the
17 DA switching rules for at least a couple of years
18 now. We got our decisions that emphasize the cost
19 responsibilities. So, if there is more that PG&E
20 or any of the utilities see that we at the PUC
21 need to do in this area, with regard to
22 improvements to the rules we have in place, please
23 let us know. Because we personally believe we are
24 providing a reasonable amount of certainty.

25 And the last thing that I wanted to

1 touch upon was your suggestion or request that we
2 try to be more definite about what criteria are
3 being used to pursue some of the societal
4 initiative is the way I take it. And I guess my
5 response is a lot, if not all of the initiatives
6 do come from the Legislature and are mandated. So
7 it's not necessarily an area where we all just sit
8 back and say, let's start from scratch and say
9 which ones meet a certain threshold or don't.

10 But what we have done in this Energy
11 Action Plan-2 is to make a commitment that we will
12 develop a schedule and a work plan. And so I
13 think that will help to identify where some of the
14 priorities are and how we're proceeding.

15 CHAIRPERSON DESMOND: Thank you. Thank
16 you, Les.

17 MR. GULIASI: Thank you.

18 CHAIRPERSON DESMOND: Mr. Schoonyan, I'm
19 hoping that your desire for food will take
20 precedence over your desire for a lengthy
21 presentation, but I'll leave it to you to decide.

22 MR. SCHOONYAN: I do not have prepared
23 remarks. I'm mainly just here to talk and react
24 to things that have been said.

25 I will salute. I may be an engineer,

1 but I'm not stupid. I understand --

2 (Laughter.)

3 MR. SCHOONYAN: First like to talk about
4 2006, presentation on that. Just to update you
5 that a couple of weeks ago we went out with the
6 solicitation to basically secure resources for
7 2006 and beyond, as a five-year all-source RFO, in
8 an attempt to basically fill whatever remaining
9 needs that we've identified during those
10 particular timeframes.

11 Discussing the 2005, it's sort of, one
12 of the things that struck me as we talked about
13 2006, in southern California, I just want to tell
14 you, the summer of 2005 isn't over yet. I'd say
15 about 40 percent of our peaks occur in September.
16 And although we're hoping it's passed, and what
17 have you, there is a likelihood of at least one
18 other heat storm hitting the southern California
19 area.

20 That being said, at least from our
21 perspective, and I believe the ISO can say, too,
22 that we're prepared for that. But I didn't want
23 to leave sight of the fact that we've still got a
24 summer.

25 CHAIRPERSON DESMOND: Good point.

1 MR. SCHOONYAN: And with regard to the
2 incident last October -- not October, August 25th,
3 there were several things that were addressed
4 during the conversation today. One was the 14-
5 degree. I want to just put some perspective on
6 that.

7 Within southern California, I think
8 between ourselves and San Diego, we probably
9 monitor about nine weather stations. I think the
10 14-degree difference wasn't one of those nine.
11 All the rest there was a smaller difference
12 associated with that.

13 That being said, there was still
14 excessive temperatures beyond what was forecast.
15 And as early as prior to about 6:00 a.m. that
16 morning of the 25th, we were out securing
17 additional resources to basically insure that --
18 you can take a look at our, and I think the ISO
19 can verify this, it was part of the Board
20 presentation, that we were roughly looking at the
21 hour-ahead, day-ahead market about 104 percent
22 scheduled at the time going into the incident.

23 So, basically there were ways of doing
24 that, and we responded to the higher temperatures.
25 And having been in this business for a long time

1 and been involved in operations for 12 years and
2 overseen it for a period of time, I can safely say
3 that there are occasions and certain areas in your
4 service territory you're going to see temperatures
5 deviating by more than 10 degree from forecast.
6 But you have to have the tools in place to
7 respond.

8 The other thing with regards to the
9 incident, it's just a piggyback of what both the
10 ISO, what I think only the ISO had said, is that
11 there does need to be a very detailed review and
12 assessment of that particular incident.

13 I mean any time you interrupt firm load
14 it's a serious concern. And one of the things
15 that probably will percolate up during this
16 investigation, just by way of timeline on what
17 happened.

18 Originally the DC line was limited to
19 just half its load; it was loaded around 2600
20 megawatts; it was reduced to 1300 megawatts, a
21 major decrease. But at 1300 megawatts, using what
22 they call a ground-return mode. In other words,
23 you don't use the other conductor to return,
24 complete the circuit, so to speak, you use the
25 ground to do that.

1 Basically the provisions of operating
2 the DC facility, I understand, allows a ground-
3 return operation for 30 minutes. That did not
4 occur. The remaining 1300 megawatts were
5 immediately ramped down.

6 That, from at least our perspective and
7 the little bit we've seen, caused some of the
8 problems that actually did result.

9 The other thing that I think, and this
10 is something I brought up at a number of these
11 hearings, that I believe needs to be addressed, is
12 to try and come up with some coordination of
13 protocols on how to use the demand side resources.

14 There are different protocols used for
15 planning, different protocols used for operations.
16 The fact that AC cycling can count as nonspinning
17 reserve, but interruptible loads can't come into
18 play, what happened; even though we're paying
19 interruptible loads as if they are fully
20 dispatchable and can provide nonspinning reserves.

21 Anyway, there needs to be some
22 coordination associated with this such that we can
23 move forward and basically on equal footing on all
24 front, planning, operations and cost recovery or
25 rate design. Basically have some semblance of

1 equality.

2 I did want to touch a little bit on
3 transmission, just an update. The D-PV-2 project
4 is on schedule at this point in time; hoping for
5 an EIR here in the not-too-distant future, and
6 move forward with that.

7 There have been a few complications with
8 regards to the Antelope project, particularly the
9 denial by FERC for segment three of that. As well
10 as I mentioned at the last meeting that there was
11 some concern by the U.S. Department of Forestry
12 about the segment one, the portion of the line
13 that goes between the new 500 kV station Antelope
14 and the existing Pardee station.

15 However, you know, like with any sort of
16 problems there may be an opportunity here, too.
17 And with the FERC denial of the segment three, one
18 of the things that's being considered, and I just
19 say being considered, now is rather than build
20 segment three up to that particular area as-is, is
21 accomplish that, but then loop that into Midway
22 sub, as well.

23 That basically provides several things.
24 Number one is that it eliminates the problem that
25 FERC had with regards to the segment three.

1 Number two, it provides some very needed
2 additional transmission interconnection support.
3 The reason we had August 25th was because of
4 overloads on the Z-26 path. This would add up to
5 potentially 1000 megawatts of transfer capability.

6 And I think the final thing that's very
7 important, too, is it provides access to the
8 valuable wind resource in the Tehachapis, direct
9 access from northern California, without doing
10 that.

11 So I think the denial of the segment
12 three at FERC was a problem at the time, but there
13 may be a blessing in that particular problem
14 moving forward.

15 The final thing I wanted to talk about
16 was just the renewables, just to alert you that
17 since the last -- well, actually since last Friday
18 we initiated a new RFP seeking at least 1 percent
19 of our load in new renewables going forward.
20 Those bids are due mid October. There's a bidding
21 conference late this September.

22 Thank you -- oh, a couple of other real
23 quick things, just to piggyback on the discussion
24 that took place with Mr. Guliasi.

25 One is on the coming and going. I think

1 this is in response to the question of
2 Commissioner Geesman. From our perspective that
3 is probably the primary issue. I mean if you get,
4 the current exit rules if a guy comes back to DA,
5 he's got to wait three years.

6 If there was something where there was
7 like a rolling three- to four-year period before
8 switching, I think a lot of the concerns that are
9 associated with this would be mitigated.

10 Secondly, you would also take a look at
11 resource adequacy, and in order to marry the two
12 together, you may want to look at a longer
13 resource adequacy period, too. That way you're
14 assured that generation and the other systems are
15 being built and put in place regardless of who's
16 serving what customer.

17 The other had to do with just a
18 piggyback on the discussion on the combined heat
19 and power. We've been very supportive of that.
20 However, in doing any assessment, and I brought
21 this up to the Energy Commission earlier a couple
22 of months ago, is that there was a very good
23 report, assessment, done by the University of
24 California that took into account and looked at
25 the environmental degradation associated with many

1 of the distributed generation type of
2 technologies, as compared to central station, gas-
3 fired, the top-of-the-line type of stuff now.

4 So, in essence, you may think that
5 you're improving the environment by doing a
6 combined heat and power, but in essence you may be
7 actually distracting from it.

8 That's all I have, thank you.

9 COMMISSIONER GRUENEICH: Joe, I have two
10 quick questions.

11 I am the assigned Commissioner at the
12 PUC on both the Palo Verde-Devers 2 and the
13 Antelope projects, so I wanted to follow up.

14 Has any progress been made on resolving
15 the differences with LADWP on Palo Verde-Devers 2?
16 Because my concern is that while we've been able
17 to keep the permitting process on track so far, I
18 think we've highlighted that if we don't have
19 resolution of that issue in the October, maybe
20 November, timeframe, then we are going to start to
21 have problems keeping that on schedule.

22 MR. SCHOONYAN: We've had -- in fact, we
23 had a discussion with DWP and I believe the Cal-
24 ISO participated in that discussion about a week
25 ago. And it was a fairly positive interaction.

1 I think the general consensus, and I
2 can't speak for LADWP, they don't want the project
3 delayed, either. I mean their concern, frankly,
4 as near as I understand, is the additional costs
5 associated with having a facility under ISO
6 control. That's their problem.

7 And there might be ways of addressing
8 that moving forward. But the key thing, I think,
9 coming out of it, is I think all parties want that
10 thing online on schedule.

11 COMMISSIONER GRUENEICH: Okay, well, I
12 just want to emphasize as strongly and as clearly
13 as possible, that we need to get a resolution in
14 place probably within the next month if we're not
15 going to have delay in the permitting process.

16 MR. SCHOONYAN: Yes.

17 COMMISSIONER GRUENEICH: The second
18 thing was on Antelope. Do you have any sense when
19 Edison may be coming into the PUC or giving us
20 more information about the alternative that you
21 were just discussing with regard to, I think it
22 was segment three.

23 MR. SCHOONYAN: Segment three. I don't
24 have a timeline for you. From our perspective,
25 though, sooner the better from our perspective.

1 So we're going to do all we can to move that
2 forward as quickly as possible.

3 But there has to be quite a bit of
4 additional work done before we get to the point of
5 actually submitting that to you.

6 COMMISSIONER GRUENEICH: Then what I'd
7 ask is if you could be sure to follow up with my
8 staff, because again, we set a schedule and I want
9 to keep it going just as quickly as we can.

10 Otherwise, I know I will be hearing from
11 Commissioner Geesman. And since I don't control
12 exactly what the company does, the sooner you can
13 let us know what your proposed schedule is, the
14 better, so that we can see if it's going to affect
15 our scheduling.

16 MR. SCHOONYAN: I think the key element
17 at this point is probably working with the ISO,
18 from my perspective. In essence this has system,
19 major system implications, positive. And we need
20 to basically sit down and go through with them.

21 I'm not sure whether those discussions
22 have taken place or initiated at this point.

23 PRESIDENT PEEVEY: Okay, moving on,
24 Commissioner Pfannenstiel. Joe Desmond was called
25 away, so he asked me to cover the balance of the

1 meeting.

2 We have four more speakers. Geoff Brown
3 is up here with George Orwell's book, 1984. But
4 he also --

5 COMMISSIONER BROWN: That's the test of
6 whether you're --

7 PRESIDENT PEEVEY: He's also written
8 several other books, and in one he talked about,
9 you know, the stomach coming before the brain or
10 the soul, but apparently that's not true in this
11 room today.

12 Commissioner Pfannenstiel.

13 COMMISSIONER PFANNENSTIEL: Just one
14 quick question, Gary. You advocated for some kind
15 of common planning protocol for use of demand
16 response.

17 How does Edison look at demand response?
18 Do you consider your cycling programs the same as
19 your pricing programs, or critical peak pricing
20 programs?

21 MR. SCHOONYAN: We don't have, frankly,
22 at this point in time, I would say, enough
23 experience with the pricing programs to --

24 COMMISSIONER PFANNENSTIEL: So you
25 don't, you consider them differently?

1 MR. SCHOONYAN: Yes. As far as the AC
2 cycling, that has ten-minute lead time, direct
3 control. We're able to count that as non-spinning
4 reserve for the purposes of meeting ISO
5 requirements and operating requirements.

6 I-6 program, we don't. And I guess,
7 from our perspective, we just need to have some
8 common protocols that bridge all of these
9 various --

10 COMMISSIONER PFANNENSTIEL: So you're
11 suggesting that the Energy Commission and the
12 Public Utilities Commission and the ISO have a
13 common treatment of all of these programs, but
14 Edison still treats them differently? I'm
15 struggling with that.

16 MR. SCHOONYAN: Well, it's not that we
17 treat them differently from an operational -- I
18 mean our operations are basically dictated by
19 working through the ISO, so --

20 COMMISSIONER PFANNENSTIEL: But your
21 planning, for your planning --

22 MR. SCHOONYAN: Our planning we do show.
23 But, here again, planning doesn't look at 10-
24 minute, 30-minute type of criteria. It's a little
25 farther removed than that.

1 PRESIDENT PEEVEY: Okay, thank you,
2 Gary. The next speaker is Clyde Murley, of San
3 Luis Obispo Mothers for Peace. Is Mr. Murley
4 here?

5 MR. MURLEY: Yes, I am.

6 PRESIDENT PEEVEY: Good afternoon.

7 MR. MURLEY: Good afternoon, President
8 Peevey, Commissioners and Secretary McPeak, my
9 name is Clyde Murley and I am here representing
10 the San Luis Obispo Mothers for Peace.

11 And we thank you very much for the
12 opportunity to share our comments, and I'm sure
13 the Mothers are offering a heartfelt salutation to
14 each and every one of you, today.

15 The Mothers for Peace, despite the many
16 fine attributes of EAP-2, believe that California
17 now has a curious and unsettling energy policy
18 conundrum; and one which we urge your Commissions
19 and agencies to address in the context of the
20 Energy Action Plan, as well as anywhere else this
21 conundrum might properly be resolved.

22 This conundrum, in our view, has to do
23 with nuclear power. Now, this is an energy
24 technology whose unique risks and dangers are well
25 known, and which, in light of our post-9/11 world,

1 are perhaps even greater than we have previously
2 understood.

3 Of course, as some of us heard last
4 month at the Energy Commission's nuclear power
5 workshop, we know that the problems of safe
6 transport and disposal of the radioactive wastes
7 from nuclear power are far from solved, and indeed
8 may never be.

9 This conundrum is that California is
10 poised to approve the continue use of this
11 technology for another ten years or so, which
12 through relicensing would create the possibility
13 for an additional 20 years of its use without
14 taking the opportunity to analyze the inherent
15 risks of doing so. And without taking the
16 opportunity to seriously evaluate whether there
17 might be superior energy resource options to the
18 nuclear power option.

19 This is the same resource option that
20 the State Legislature in 1976 declared to be off
21 limits because of its unsolved transport, storage
22 and disposal problems.

23 I'm speaking, of course, of the two
24 steam generator replacement project applications
25 now before the PUC. These two cases are poised to

1 be decided without taking into account the
2 potential impacts and risks associated with
3 operating these plants, each for another 10 or
4 perhaps 30 years. And without a serious analysis
5 of the potential for superior resource options to
6 take the place of this nuclear power output.

7 This is the case despite the fact that
8 the last comprehensive environmental analyses of
9 these plants were performed over 30 years ago,
10 which, of course, was before the State Legislature
11 issued its moratorium on new nuclear power
12 generation. And it was well before the full
13 nature of operating an aging fleet of nuclear
14 power plants could be appreciated.

15 These kinds of analyses are inherent, we
16 believe, in the method of integrated resource
17 planning that is supposed to be the hallmark of
18 California's electricity planning policy and
19 procurement. In other words, before any
20 electricity resources are selected we are to first
21 subject them to the rigorous test of whether they
22 are, in fact, the best fit economically,
23 environmentally and otherwise.

24 This test is made through rigorous
25 systematic analysis and evaluation of existing

1 resources, refurbishment of existing resources,
2 and new resources.

3 For all any of us knows, the steam
4 generator alternatives would, in fact, be found to
5 be this best fit. At least for the next ten years
6 to the end of the current NRC licenses.

7 Our deep concern is that no one knows
8 the answer to this because the requisite analysis
9 and evaluation have not been done. We therefore
10 believe we have a policy failure with respect to
11 the way decisions are being made about nuclear
12 power's continuing role in California.

13 Part of this answer for this failure
14 arguably rests with the fact that nuclear power is
15 nowhere mentioned in one of the state's primary
16 energy policy documents, the Energy Action Plan.
17 And only barely mentioned in one of the state's
18 other primary energy policy documents, the 2003
19 and 2004 IEPRs.

20 Our policy failure appears to be partly
21 due to the fact that we have a policy vacuum with
22 respect to this uniquely hazardous energy resource
23 option.

24 Now, it is neither arbitrary nor
25 accidental that energy efficiency and renewable

1 energy are at the very front of California's
2 electricity loading order. They're at the front
3 of the line because they offer superior means of
4 providing energy services. And we applaud your
5 Commissions for placing these resources where they
6 deserve to be in the loading order.

7 However, by virtue of our nuclear power
8 policy vacuum it appears that the continuing
9 nuclear power option is arbitrarily and
10 unwittingly effectively also being placed at the
11 front of the loading order.

12 We believe that any resource option
13 should earn its place in line, and that each
14 resource option must do so by the rigorous
15 systematic testing process called integrated
16 resource planning.

17 Now, during the recent Energy Commission
18 workshop on nuclear power, Amory Lovins, an
19 internationally renowned energy policy expert, was
20 asked whether he thought shutting down Diablo
21 Canyon and SONGS immediately was the right thing
22 to do. His reply reflected exactly the
23 perspective that we urge your Commissions to
24 adopt. He said that it was an interesting
25 question, but that he didn't know because the

1 analysis hasn't been done.

2 On a final note, Mothers for Peace wants
3 to bring the Commissioners' attention to the
4 chilling cautionary tales told by ex-NRC
5 Commissioner, Peter Bradford, during the recent
6 nuclear power workshops. He described the NRC's
7 fundamental disregard for public safety and public
8 concern about nuclear power plants. Mr. Bradford
9 described an agency at serious odds with its
10 nuclear power safety mandate. And we urge you to
11 review his remarks if you haven't already done so.

12 We urge you not to simply assume that
13 the question of safety can be safely left to the
14 NRC, but for California to undertake its own
15 investigation of what constitutes a safely
16 operating nuclear power industry. For, in fact,
17 California has the ability to preempt the NRC on
18 safety issues. California could say, as it
19 effectively said in 1976 when it placed a
20 moratorium on new nuclear power, that continuing
21 reliance on nuclear power is imprudent.

22 So, in conclusion, Commissioners and
23 Secretary, we ask you to revise the EAP so that it
24 is capable of informing decisionmakers about how
25 nuclear power's continuing role in our energy

1 future needs to be considered.

2 To make sure that that consideration
3 reflects rigorous, broad, integrated resource
4 planning principles. And to make sure that it
5 accounts for the unique risks and concerns
6 associated with this particular technology.

7 And finally, we urge you not to let the
8 current steam generator applications be approved
9 without applying these rigorous planning criteria
10 to them. Taking full consideration of the risks,
11 costs and potential impacts associated with
12 operating these plants for another 10 to 30 years.
13 We don't believe it's too late to do this, given
14 that the existing steam generators are expected to
15 be operable for another seven or eight years or
16 so.

17 Thank you very much for your
18 consideration.

19 PRESIDENT PEEVEY: Thank you. Are there
20 any questions of Mr. Murley? If not? Any
21 questions, comments? No.

22 If not, the next speaker is Jan
23 McFarland, followed by Tom Pierson and then Julie
24 Blunden. That'll be it.

25 While she's coming up I might add that

1 Mr. Desmond was called out. He's coming back now.
2 There was a power failure in Los Angeles today,
3 DWP service territory. They lost -- maybe Joe
4 could fill us in right now -- they lost a 500 kV
5 line, and it's a significant consequence for the
6 City of Los Angeles. But not for Edison or San
7 Diego. If he can get through his Blackberry.

8 CHAIRPERSON DESMOND: Okay, just since
9 everyone's always interested in this news, this is
10 the first report from OES, is that power outage in
11 southern California, central exchanges. Central
12 exchanges are unaffected, are on back-up power.
13 Fox News had reported some outages.

14 And it appears that an employee crossed
15 two lines and shorted the system in Fairfax and
16 the Century City areas of Los Angeles. SCE and
17 LADWP are currently working on the problem and
18 expect that it should be rectified in about an
19 hour.

20 So, that's the information that we have,
21 so, sorry I had to step out.

22 MS. McFARLAND: Hi. I'm Jan McFarland
23 with the Americans for Solar Power. And I'm here
24 today to applaud you Commissioners and the
25 Secretary for the EAP-2. We strongly support the

1 loading order, the energy efficiency and DSM
2 first, renewables second. We also like the part
3 on page 6, number 8, which is the support for the
4 cost effective million solar roof initiative 3000
5 megawatts of PV power.

6 The PV manufacturers Alliance, along
7 with a lot of installers, were fully committed to
8 developing a comprehensive solar program in the
9 state that will lower costs, reduce our reliance
10 on rebates so ten years out we'll be competitive
11 with retail rates of electricity.

12 We are in a bit of a jam, as you all
13 know, because SB-1 did not pass. The emerging
14 program's out of funding in February. And so we
15 were very glad to hear President Peevey talk,
16 along with Chairman Desmond, about the continued
17 support of million solar roofs through the
18 Governor's Office. And we're quite aware of
19 Commissioner Pfannenstiel and Mr. Geesman's
20 efforts, as well.

21 In terms of accomplishments that we've
22 made in the last number of years, the rate
23 policies have been a good start, although there
24 are a couple of utilities that don't have the best
25 rates for solar power.

1 The CEC program and PUC programs are
2 over-subscribed, but we did get a good
3 interconnect program, the REC ownership decision
4 was to be applauded, by the PUC. And the CARB DG
5 initiative that's underway in terms of the
6 emission standards for CARB.

7 The one item that the appendix points
8 out is the joint effort on the common system of
9 evaluating costs and benefits. And last week, or
10 perhaps it was the week before, recently ALJ
11 Malcolm has issued a decision, or a proposed
12 decision. And while she did acknowledge that
13 there were some reliability benefits, some
14 benefits for line losses, waste heat and market
15 prices, she also had some good language about
16 market transformation -- put that into the avoided
17 cost proceeding -- largely the T&D benefits of DG
18 have been excluded in this decision.

19 And the reason is because of a previous
20 PUC decision on physical assurance. And so we're
21 hopeful that this issue gets resolved.

22 The IOUs have been tasked with
23 determining the costs and benefits of DG for every
24 program that is actually applying to the CEC or
25 the PUC. So we do have concern in that the IOUs

1 are being asked to determine the benefits of DG,
2 and they've testified in the proceeding that
3 there's very little benefit. The proposed
4 methodology is very narrow. It doesn't take into
5 account all the benefits.

6 And largely, another major issue that we
7 have, we went and took upon ourselves, and came up
8 with some range of values. That's our first
9 waterfall. That's the best data we can give you
10 today. We don't have any better data to get to
11 better answers. And we'd like to do that.

12 So, and I guess one other observation,
13 and I don't know if EAP, but one thing that we
14 really have to work hard on is the role of DG. We
15 still have a lack of understanding in the
16 Legislature, perhaps in some of the ALJs and in
17 the staff area, that people don't understand the
18 role and the differences between central station
19 and distributed generation. The bottomline is we
20 need both, but we could use a lot of help. I
21 think a lot of the problems that happen in the
22 Legislature, some of this did focus on that.

23 The role of private investment in DG is
24 a very important thing. Clearly there are
25 efficiencies that occur from DG that doesn't occur

1 in other places. And unless you understand that
2 you're comparing DG to retail prices, it's going
3 to be very hard to feel like they're cost
4 effective.

5 We look forward to working with both
6 Commissions on the CSI-proposed decision. We
7 think that's going to be a very good example of
8 CEC and PUC coordination. And anything that we
9 can do to help in that regard we'd be happy to do.

10 CHAIRPERSON DESMOND: Thank you. Any
11 questions? Okay.

12 The next speaker is Mr. Tom Pierson, CEO
13 of Turbine Air Systems. And then he'll be
14 followed by Julie Blunden, and that's the last
15 speaker we have.

16 MR. PIERSON: Thank you, Commissioners.
17 As you mentioned, my name is Tom Pierson. I'm the
18 Founder and CEO of Turbine Air Systems, also known
19 as TAS. Basically spent the last 25 years of my
20 life in large tonnage chill water plants designing
21 highly efficient chill water plants for large
22 industrial-type applications.

23 To give you an idea, and first of all,
24 let me just commend the Commission for the loading
25 order, and particularly energy efficiency. We

1 believe that this is the right answer, now only
2 for California, but for the country. It's one of
3 the few ways to reduce energy imports and still do
4 it in a cost effective manner. In fact, make the
5 U.S. more competitive in a global economy.

6 To give you an idea, there's been
7 dramatic improvements in the efficiency of large-
8 scale air conditioning systems, primarily through
9 the use of packaging. Highly engineered package
10 systems, similar to what the power generation
11 industry has been doing over the last 15 years for
12 gas turbines, that same evolution is occurring in
13 the chill water industry.

14 And it's resulting in energy
15 efficiencies that are approximately 20 to 30
16 percent better than the traditional field-directed
17 chill water plant that most of you are probably
18 familiar with.

19 We believe that this technology has a
20 lot of opportunity on the demand side, not only in
21 reducing the kilowatt consumption by 20 to 30
22 percent, but it also has the ability to be added
23 with thermal storage and the ability to be
24 remotely monitored and with performance very well
25 defined, and the ability to cut load at a moment's

1 notice where needed, and shut off megawatts
2 instead of kilowatts at a single blow.

3 But what I'm really here to talk about
4 is an industry that I represent; I'm a past
5 Chairman of the Turbine Inlet Cooling Association,
6 which is an association of providers of doing
7 large-scale air conditioning, if you will, for
8 power plants.

9 And what this technology does, it's
10 similar technology to what's being done in
11 district cooling and large-scale building air
12 conditioning, it's essentially large chill water
13 plants that are highly engineered.

14 But we've talked a lot about the effect
15 of temperature, and what temperature does to load.
16 And certainly California, and much of the world,
17 the load is highly dependent on its air condition
18 load. Therefore we have our summertime peaks
19 right when the ambient is the hottest.

20 What most people don't realize, though,
21 is that same temperature also affects the power
22 generation assets in a negative, inverse way. So
23 right when you're setting your all-time peak, your
24 power generators are setting their all-time low.
25 And the reason for that is gas turbines

1 essentially are big fans, and there's a volume of
2 air, and so basically it's a density of air issue.
3 All turbines suffer from this. And they lose
4 about 20 percent of their output on a hot day.

5 What turbine cooling does is essentially
6 bring that performance back to its rated
7 performance. Actually it makes it even better
8 than rated. Most turbines are rated at what's
9 called ISO 59 degrees. We would typically design
10 a system for more like 42 degrees. And therefore
11 allow the power generation plant to produce
12 roughly 5 percent more than ISO, or 15 percent to
13 20 percent better than what it would be without
14 cooling at all.

15 Most of the new plants in California
16 have some form of cooling. But the cooling is
17 primarily evaporative cooling, which is
18 essentially, in air conditioning terms we call it
19 a swamp cooler. You drop water; you evaporate the
20 water; and it can cool the air on a hot day from
21 maybe 90 degrees down to about 75 degrees.

22 Inlet cooling does that, but it takes it
23 much further.

24 CHAIRPERSON DESMOND: Mr. Pierson, I'm
25 sorry to interrupt you, but I just want to make

1 sure that your remarks are germane to the
2 recommendations contained in the EAP. And so if
3 you could -- I've had the benefit of a technical
4 presentation, but I don't want necessarily the
5 Commissioners to go through a technology
6 presentation.

7 So, if you could, please focus on what
8 do you think the benefits are, how does that fit
9 within what should the state be doing, you know,
10 where do we go from here.

11 MR. PIERSON: Okay. Thank you. Well,
12 in a nutshell the benefits are that it can provide
13 an additional approximately 1500 to 2000
14 summertime megawatts in California without
15 building another peaking power plant. That's
16 really the bottomline.

17 And it does it at a cost that's roughly
18 half of adding new peaking gas turbines. And it
19 does it with a much better environmental
20 footprint, typically about one-third lower
21 emissions than adding a new simple-cycle peaker.

22 We did have an opportunity to present
23 very briefly to Commissioner Desmond and
24 Commissioner Geesman. And they had asked us to go
25 back and do a little more research and come back

1 with a concise report on what exactly does
2 California need to do. What are the barriers; why
3 is this thing, if it's such an economic no-
4 brainer, why isn't it taking place.

5 So we have been doing that for the last,
6 ever since we met with you, which was roughly a
7 month ago. And we're getting close to finalizing
8 that report.

9 We have hired a local firm here,
10 primarily Andy Brown and Jeff Harris, who have
11 been helping us with this report. I would like to
12 ask Andy to come up and give just a brief synopsis
13 of the bottomline recommendations. And the report
14 should be out in roughly a week.

15 MR. BROWN: I'll attempt to be very
16 brief, Chairman. Andrew Brown from Ellison,
17 Schneider and Harris here in Sacramento.

18 To run right to how this is related to
19 the Energy Action Plan, the inlet cooling is
20 essentially an efficiency measure. And so with
21 respect to loading order, one of the things that
22 we'd like to see is this technology recognized as
23 an energy efficiency action.

24 The part of the report that I'm working
25 at is focused on market barriers. Part of that is

1 regulatory barriers. One of the things that I'm
2 trying to address is how these additional peak
3 hour megawatts can be brought to market quickly
4 given the role of the PUC in the procurement
5 process, and its relationship with the utilities.

6 And also in terms of the Energy Commission's
7 work in the resource adequacy context.

8 I'm just going to highlight a few
9 things, and then we can, you know, discuss them in
10 more detail when you see the report.

11 But just in terms of the short term,
12 looking at '06 and '07 timeframe, we need to clear
13 the path so that this resource can be
14 commercialized. Primarily one of the first things
15 is to recognize that the counting rules for
16 resource adequacy, which is work being done by
17 both the PUC and the Energy Commission, needs to
18 look at and figure out how this capacity should be
19 counted.

20 As Mr. Pierson noted earlier, standard
21 capacity for a generating plant does not include
22 this portion of a plant output because weather
23 conditions essentially rob it from the plant.

24 The PUC needs to look at potentially
25 authorizing bilateral contracts to secure this

1 capacity. The Commission, in its procurement
2 process, has a listing of preauthorized types of
3 transactions. Perhaps an energy efficiency
4 bilateral action could be added to that list. And
5 that would allow the utilities to pursue the
6 opportunities, again at the most efficient and
7 newer turbines, which are environmentally better
8 anyway, and essentially maximizing the value of
9 that asset.

10 The Energy Commission could look at this
11 technology and consider a proforma fast tracking
12 approach in terms of any licensing modifications
13 that might be required.

14 The IOUs need to look at their RFOs to
15 see if there's a barrier there to getting this
16 capacity addressed in their procurement efforts.
17 Because right now there's no way for this type of
18 asset to be brought to market.

19 And then looking past '07, again we need
20 to look at where new combustion turbines are
21 built, particularly if they are in the arid
22 locations of the state where we're seeing a lot
23 more of residential and other growth happening.
24 Is this technology being considered in the
25 evaluation of that project, so that when they're

1 built you're getting the most efficient asset you
2 possibly can get built for the ratepayers in
3 California.

4 So, again, just to summarize, we believe
5 that this technology should be recognized as an
6 efficiency measure that helps new generation built
7 in the state maximize its potential for both
8 reliability and cost purposes.

9 And we'll be addressing those regulatory
10 issues, and then also some commercial barriers in
11 the report. Thank you.

12 CHAIRPERSON DESMOND: Thank you very
13 much. Look forward to seeing that report. Any
14 questions? Yes, Commissioner Rosenfeld.

15 COMMISSIONER ROSENFELD: Hi, Mr. Brown.
16 I understand and am sympathetic with everything
17 you said. I hope in your report, however, you
18 will sort of address the following issue.
19 Enhanced turbine output is a pretty old mature
20 idea. And so I had the happy feeling that you
21 would approach power plant owners, or power plant
22 applicants and sell them the good news that you've
23 got a 20 percent improvement or whatever.

24 But, as a Commissioner, I'm not very
25 clear why you need help from -- I hope you'll

1 address the issue of why you can't just deal
2 directly, and why you need help from the PUC and
3 the CEC.

4 MR. BROWN: Well, yes, we will, --

5 COMMISSIONER ROSENFELD: Okay.

6 MR. BROWN: -- and, in essence, in a bit
7 of a nutshell, the technology's changed a lot, and
8 we're talking about an improvement over what may
9 have been installed initially, the evapor-5
10 cooling.

11 And really what has to happen for the
12 utilities or either for other entities that may
13 own newer plants, is to figure out the angle that
14 commercially it can happen under the current
15 market structure.

16 And particularly if the assets are
17 already under a long-term contract, how this
18 additional capacity could come out of that asset,
19 would fit in. Whether it's, you know, a formal
20 capacity market structure or an RFO for some
21 additional capacity that only exists in those
22 periods of time when it's the hottest, and the
23 ambient derate effect occurs.

24 COMMISSIONER ROSENFELD: Yeah, but,
25 please make it clear to me why you can't go to,

1 say, Calpine and say, out of pure greed you can
2 sell all that excess power just when the prices
3 are high, and you ought to go for it.

4 MR. BROWN: That is happening, but, you
5 know, in terms of looking at the very close
6 timeframe, '06. I mean this can be installed in a
7 retrofit basis on existing plants.

8 There are regulatory hurdles that happen
9 there, just in terms of rolling it out.

10 CHAIRPERSON DESMOND: Thank you. Any
11 further questions?

12 MR. PIERSON: I just want to give one
13 brief example. This can be done in southern
14 California --

15 CHAIRPERSON DESMOND: Sir, --

16 MR. PIERSON: -- and we looked at one
17 plant in particular, specifically Mountainview,
18 that could do -- it would make an additional 70
19 megawatts for roughly \$24 million. And could be
20 installed by summer of '06. So that's just an
21 example of rough cost and benefit.

22 And the report will be more specific
23 about why it's not been done in the past, but the
24 short answer is right now it has to do with the
25 way the contracts have been written over the

1 years. Performance has always been allowed to
2 degrade as a function of ambient temperature. And
3 that --

4 CHAIRPERSON DESMOND: Thank you, Mr.
5 Pierson.

6 MR. PIERSON: Yes.

7 PRESIDENT PEEVEY: Just a second. Let
8 me be very clear here. I mean Mr. Schoonyan's in
9 the room. Mr. Schoonyan, look, I mean he's saying
10 70 megawatts, \$24 million can be done in
11 Mountainview by June '06.

12 Now, I mean we have been sympathetic; we
13 pushed, you know, as San Diego people know, we
14 pushed Mission-Miguel ahead. We put 230 power
15 through a 69 kV line.

16 The PUC would -- if you guys could -- if
17 this is accurate, if this is not, you know,
18 there's not some major flaw here, and you guys can
19 get together, the two companies, and come forward
20 with something, I think that my colleagues and
21 myself would look very favorably on 70 megawatts
22 more for \$24 million. I mean that's a no-brainer
23 in terms of kilowatt hour costs.

24 I'm not validating this. I'm not saying
25 anything. But you got Edison sitting here. You

1 got your proposal. You guys ought to talk, you
2 ought to talk immediately. Okay? That's all I'm
3 going to add.

4 MR. PIERSON: And we are, but it's been
5 very recent that that communication has started.

6 PRESIDENT PEEVEY: Okay, well, you make
7 these claims, so I mean I'm saying, you know, put
8 up or shut up. There's --

9 (Laughter.)

10 PRESIDENT PEEVEY: -- the man.

11 MR. PIERSON: Right.

12 CHAIRPERSON DESMOND: All right, thank
13 you.

14 MR. PIERSON: Thank you.

15 CHAIRPERSON DESMOND: Ms. Blunden.

16 MS. BLUNDEN: Thank you, Mr. Chairman,
17 Mr. President and Commissioners. I'm Julie
18 Blunden; I'm the Vice President of External
19 Affairs for SunPower Corporation.

20 We're a Silicon Valley-based
21 manufacturer of solar cells and solar panels that
22 are the most efficient in the world; and we're
23 newly commercialized.

24 We are exactly the kind of company that
25 the notion of the million solar roofs initiative

1 was intended to create. In fact, I'd argue that
2 we're the kind of company that the California
3 Clean Energy Fund is going to try to replicate in
4 the future.

5 We're clean; we're high-tech; we're
6 fast-growing; we're entrepreneurial; and we're
7 based in Sunnyvale, California. We serve both
8 California and global markets with our most
9 efficient solar cells and panels. We actually
10 generate up to 50 percent more power per square
11 foot than your average solar cell. And we're in
12 hot demand.

13 I want to also point out that we're, in
14 California, pretty much the only choice left for
15 new retail choice customers. You can still choose
16 to buy a solar panel and put it on your roof. And
17 in my background in retail choice, I'm pleased to
18 be able to say we still are able to do that in
19 California.

20 I want to thank particularly President
21 Peevey and the Energy Commissioners for your
22 stated commitments to follow up on the failure of
23 SB-1 last week. Solar is poised to be a major
24 contributor to California's future peak energy
25 demand.

1 You'll note that yesterday in The New
2 York Times there was a very nice piece talking
3 about the solar energy achievements, both
4 technical and business. And for those of you who
5 aren't real familiar with it, just a few key
6 stats.

7 The global solar market generated over 1
8 gigawatt of solar cells last year. In the last
9 several years we've dropped incentive rates in
10 California at the Energy Commission by 38 percent.
11 And at the beginning of 2006 we'll drop them at
12 the PUC by 33 percent from their highs earlier.

13 In addition, the other two pieces of
14 data that I think are relevant to keep in
15 perspective, PG&E's next-year, 2006 tier 5
16 residential electricity rate will be over 30 cents
17 a kilowatt hour. That's consistent with what the
18 peak summer TOU rate was in the statewide pricing
19 program. I mean that's tier 5 basic rates, over
20 30 cents. It's about an almost 50 percent
21 increase from this year.

22 In addition, the \$11 natural gas. I
23 mean obviously there's a dampening effect in
24 retail rates. We don't get wholesale gas prices
25 showing up in retail rates right away. But

1 eventually they will, and given the rate
2 structures in California, that means that we're
3 going to see tier 4 and tier 5 residential rates
4 continue to go up precipitously.

5 We're looking forward to working with
6 both agencies, both the PUC and the Energy
7 Commission, to implement the Energy Action Plan
8 goals and, in particular, the solar goals. We
9 think that we can work very successfully, given my
10 background in both the Energy Commission and
11 supporting PUC work, that we can get a common
12 objective between those two agencies and really
13 demonstrate that this is probably the model for
14 how the Energy Commission and the PUC ought to
15 work in the past.

16 We've had some good examples in the RPS
17 proceeding and the demand response proceeding.
18 This is one where we ought to have complete
19 unanimity between the two agencies. I'm looking
20 forward to getting there.

21 I understand that there is a plan, in
22 the Energy Action Plan there's a specific
23 objective to come up with a work plan that
24 describes responsibilities, roles and timelines.
25 We're looking forward to helping with that effort.

1 And we certainly are looking forward to
2 incorporating all of the experience and data that
3 the Energy Commission has to bear on the
4 residential side.

5 I will point out that there's -- I had a
6 good conversation with Scott Anders at SDREO on
7 Friday. SDREO already has a residential program
8 that they're implementing kind of underneath the
9 self-gen umbrella, at the PUC. And they used the
10 Energy Commission guidebook to blend a residential
11 program into self-gen, which I think is a useful
12 datapoint to have.

13 There's several key objectives and
14 actions that are identified in the Energy Action
15 Plan. I just want to point out that there's a few
16 that I think are particularly relevant to solar.

17 One is that we will not discriminate
18 against increasing penetration of renewables.
19 Another is to specifically implement the million
20 solar roofs initiative. And there's another that
21 says the distribution system must be continually
22 upgraded and reinforced. I see solar as being a
23 part of that effort.

24 Another of the objectives not delineated
25 with a number, talks about increasing regulatory

1 certainty. And I certainly agree with my utility
2 colleagues that for the million solar roofs
3 initiative, a silver lining to the fact that SB-1
4 failed last week, is that at the PUC we can set up
5 a situation where we do not have the equivalent of
6 annual appropriations, which would have been in
7 SB-1.

8 Let me just give a very personal twist
9 on that. My company, SunPower, did a five-year,
10 \$300 million deal with one of our biggest
11 customers in Germany. The reason we were able to
12 do that deal was because we had regulatory
13 certainty in the German market.

14 Without that kind of regulatory
15 certainty those kinds of multi-year, big-scale
16 deals that allow for investment in a new
17 manufacturing plant don't happen.

18 So, the regulatory certainty aspect, I
19 would say, as we move forward at the PUC, is going
20 to be really important.

21 So, let me say my three requests, plus
22 kind of one side point. The first is that we very
23 definitively state in whatever the final decision
24 will be, coming this year out of the PUC, that
25 this is going to be a long-term program. Like

1 energy efficiency or demand response or any other
2 procurement option.

3 The second is that we're going to need
4 some staff leadership. We've seen the PUC do this
5 in the past, where we've actually assigned
6 somebody whole-hog, and said they're going to
7 really go after this, and not be pulled off to do
8 other things.

9 And we have actually some decent
10 examples of both the staff leadership and a
11 working group approach from the retail choice era
12 that I think we could look at for a model of going
13 forward with million solar roofs at the PUC.

14 In particular, on the working group
15 front, I want to point out that I'm not allowed to
16 attend the self-gen working group on Thursday at
17 PG&E, because I'm not a utility or a policymaker.
18 And I'm confident that the PUC is not intending to
19 perpetuate that kind of a working group going
20 forward in the million solar roofs. And that we
21 need to set up a style of working group where you
22 can really take stakeholder input and insure what
23 the Energy Action Plan asks for, which is complete
24 transparency.

25 The last minor point, I'm really looking

1 forward to seeing the IEPR coming out, I guess, on
2 Thursday, Commissioner Geesman. And one of the
3 things that I'm hoping we can do, moving forward
4 in the IEPR, is take a specific look at the
5 aggregate impact of intermittent renewables.

6 And we mentioned this actually in
7 comments we've submitted to the PUC on the
8 California solar initiative, but I want to
9 highlight it here. Because, as most of you know,
10 we have a late-afternoon and evening peaking wind
11 in aggregate in California in the summer. And we
12 have a midday peak in solar.

13 In combination they're very
14 complementary. And when we think about what the
15 impacts are going to be on the grid of all that
16 wind, and potentially all this solar, we ought to
17 be doing it in aggregate and not separately.

18 I think that that will be valuable for
19 us to think through what the impacts are even by
20 zone. So that's my last small request.

21 Really looking forward to working with
22 all of you as we move into the next phase on solar
23 in California. Thanks.

24 CHAIRPERSON DESMOND: Thank you. Any
25 questions? Do we have anyone on the line before

1 we go to Mr. Kinosian?

2 MR. BLEVINS: No. Do you want me to
3 actually try to call his office?

4 CHAIRPERSON DESMOND: Try. Try. The
5 Los Angeles Department of Water and Power wanted
6 to clarify a couple points from previous
7 discussion, both on --

8 (Laughter.)

9 CHAIRPERSON DESMOND: Wait, there's two
10 parts to this. The first part is in response to
11 the presentations made earlier regarding the
12 outage; and then secondly, they have some updated
13 information on the outage today.

14 Thank you.

15 MR. BLEVINS: Randy, this is B.B.
16 Blevins. Can you hold just a second, please.

17 Do you want to go now?

18 CHAIRPERSON DESMOND: Go.

19 MR. BLEVINS: Okay. I'm going to put
20 you on speakerphone, and I'm also going to put it
21 close to a mike.

22 CHAIRPERSON DESMOND: And then we have
23 Mr. Kinosian and we're done.

24 MR. BLEVINS: Can you hear me, Randy?

25 MR. HOWARD: Yes, I can.

1 MR. BLEVINS: Okay, go ahead.

2 MR. HOWARD: Am I speaking to the whole
3 group?

4 CHAIRPERSON DESMOND: Yes, you are.

5 MR. HOWARD: Good afternoon; Randy
6 Howard, LADWP. Just as I enjoyed listening to the
7 meeting I certainly picked a bad day not to be up
8 there, but down here in L.A. where we have
9 experienced some broad power outages.

10 I think we currently have about 68,000
11 customers out. They're being restored.

12 We had a situation on a transmission
13 line at a receiving station that cascaded into a
14 voltage drop that took out all three of our base
15 power plants along the coast. And therefore, we
16 had to shed some load until we could get these
17 customers back on and get some additional
18 generation back in service.

19 But it looks like most of the customers
20 are coming back on now, as we've isolated the
21 problem.

22 CHAIRPERSON DESMOND: Thank you. Randy,
23 did you want to clarify anything that you said,
24 you had indicated you heard earlier regarding the
25 outage?

1 MR. HOWARD: Yeah, I did. I wanted to
2 clarify just a few things that I did hear earlier
3 concerning the event on the high voltage direct
4 current transmission system.

5 Obviously there is an investigation team
6 consistent of a number of different parties that
7 will be compiling the events. I think Army
8 indicated that it was a manual process of bringing
9 it down. That isn't accurate.

10 It was a -- the equipment acted as it
11 should. It detected a loss of oil circulating in
12 a transformer. It automatically relayed out one
13 of the circuits. The other circuit then, because
14 of the amount of current flowing down the line,
15 became an overloaded situation. It did go to
16 ground return, but it was an overloaded situation.

17 And then it was reduced by Bonneville.
18 It wasn't reduced by LADWP. Bonneville Power, at
19 that point, had control. And they brought down
20 the line to zero so it could be reconfigured
21 safely and brought back up quickly without
22 damaging any equipment.

23 But it was an automatic process that
24 occurred. They are investigating it. It is a
25 piece of equipment that was part of the recent

1 upgrade, that upgraded the entire facility. And
2 it's still under warranty. So the manufacturer
3 has been out. They're looking at all of the
4 similar equipment we have, and evaluating that.

5 And as Army did indicate, we do expect
6 to repair that piece of equipment that
7 malfunctioned. We will repair that in an October
8 outage.

9 CHAIRPERSON DESMOND: Thank you.
10 Appreciate that. And unless there's anything
11 else, --

12 MR. HOWARD: And also I think there was
13 a question that was asked related to the Palo
14 Verde-Devers line. I just want to also express
15 our commitment. We did meet with the Cal-ISO and
16 Southern California Edison, jointly. LADWP
17 presented a term sheet that we thought we could
18 utilize to proceed jointly.

19 And that is being reviewed, and we do
20 believe that we will come to an agreement here
21 shortly, and get this line built without any
22 further delay for any of the parties.

23 CHAIRPERSON DESMOND: Great. Thank you
24 very much. I have no further questions. Thank
25 you, thank you, Randy.

1 Okay, last speaker, Mr. Kinosian.

2 MR. KINOSIAN: Good afternoon,
3 Commissioners. I'm Robert Kinosian with the
4 Office of Ratepayer Advocates. Let me just start
5 by saying I'd be happy to salute you, but as a
6 member of the California State Employees Union, I
7 believe I'm only allowed to use one finger. So
8 I'll skip it.

9 (Laughter.)

10 CHAIRPERSON DESMOND: And that's the
11 thumbs up, I'm sure, right?

12 MR. KINOSIAN: You bet. Given the time
13 of the afternoon I'll cut way back on my comments
14 and just address a couple of topics.

15 One is the outlook for 2006. A couple
16 things to consider. One is that under the
17 leadership of Commissioner Kennedy, the funding
18 for energy efficiency programs has been increased
19 dramatically over the last couple of years, from
20 around \$150 million to \$500 million. And it's
21 still looking to go up.

22 In addition, there's now activities
23 underway to have those funds directed more at peak
24 reduction programs than just general energy
25 savings. So hopefully we shall see, by next

1 summer, a greater amount of reduction in peak
2 demand than we have in prior years from energy
3 efficiency sources.

4 In addition, as I'm sure you're aware,
5 PG&E has announced a proposal for an 11 percent
6 rate increase. We're also looking at 30 to 50
7 percent increases in utility, ratepayer utility
8 bills for gas this winter.

9 The increase in utility bills is going
10 to result in some decrease in demand in the near
11 term. We've seen that before; whenever rates have
12 gone up, there is some reduction in demand.

13 Secondly, I wanted to comment on the
14 actions to improve and make more efficient the
15 joint operations of the two Commissions. It's
16 been a wonderful job all of you have been doing on
17 that. The one comment I would like to make on it
18 is that to the extent one of the main goals is to
19 avoid relitigating issues at the PUC, it is a
20 problem when groups like ORA, and to some extent
21 TURN, have funding to participate at the PUC, but
22 not at the CEC.

23 I've had the pleasure of coming up here
24 for a few of the proceedings for the IEPR this
25 last year; that is stretching ORA's resources. We

1 have no dedicated staff to these efforts. And so
2 I hope you'll support our efforts with the
3 Department of Finance to get some additional
4 positions funded so that we can more actively
5 participate at the CEC, rather than having to
6 relitigate things at the PUC if that's the only
7 forum we can participate in.

8 That's it, thank you.

9 CHAIRPERSON DESMOND: President Peevey.

10 PRESIDENT PEEVEY: I just wanted to make
11 one brief comment. And it's not regarding
12 directly what Bob said, other than the recognition
13 that gas prices are going up, and that they could
14 have a significant impact on many people.

15 And on October 6th the Public Utilities
16 Commission will be having its regular Commission
17 meeting that day in Los Angeles, not in San
18 Francisco. But we're having a meeting in Los
19 Angeles.

20 And that afternoon from 2:00 to 4:00,
21 working with Martha Escutia, the Chair of the
22 Senate Energy Utility Committee, and Senator
23 Alarcon and others, we're going to devote some
24 time to talking about alternatives to what can be
25 done to ameliorate the very negative impact of gas

1 prices on residential users, particularly low-
2 income residential users in the forum, also.

3 If anybody from the Energy Commission
4 would like to participate in that effort, you're
5 certainly invited, as well as others. And a
6 detailed program will be coming out shortly under
7 the auspices of the Executive Director, Mr.
8 Larson.

9 CHAIRPERSON DESMOND: Any other further
10 questions, comments? The only thing I'll
11 indicate, Mr. Kinosian, is all parties are welcome
12 at all times to participate here at the Energy
13 Commission. They're not all procedures that
14 require litigation, and so to the extent that we
15 can assist in providing you with that information,
16 we're happy to do so.

17 But, go ahead, Commissioner Geesman.

18 COMMISSIONER GEESMAN: I think the
19 Public Utilities Commission did make intervenor
20 compensation available to nonprofit participants
21 in the IEPR proceeding. Obviously that doesn't
22 apply to ORA, but I think all of the others have
23 been funded.

24 CHAIRPERSON DESMOND: Great, thank you
25 for that clarification.

1 Unless there's any further comments I
2 want to thank everyone here today, the public, my
3 colleagues fellow Commissioners, Secretary McPeak,
4 and those who had to leave earlier, for attending.
5 Look forward to seeing you all again in December
6 at the PUC, I believe.

7 Thank you.

8 (Whereupon, at 2:16 p.m., the Joint
9 Public Meeting was adjourned.)

10 --o0o--

CERTIFICATE OF REPORTER

I, PETER PETTY, an Electronic Reporter,
do hereby certify that I am a disinterested person
herein; that I recorded the foregoing Joint Public
Meeting of the California Energy Commission and
the California Public Utilities Commission; that
it was thereafter transcribed into typewriting.

I further certify that I am not of
counsel or attorney for any of the parties to said
meeting, nor in any way interested in outcome of
said meeting.

IN WITNESS WHEREOF, I have hereunto set
my hand this 16th day of September, 2005.

PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345□